

As filed with the Securities and Exchange Commission on January 19, 1999

Registration No. 333-65787

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

AMENDMENT NO. 3

TO  
FORM S-4  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933  
RENT-A-CENTER, INC.  
COLORTYME, INC.  
ADVANTAGE COMPANIES, INC.  
(Exact name of co-registrants as specified in its charter)

DELAWARE	7359	48-1024367
TEXAS	6794	75-2651408
DELAWARE	7359	48-1156618
(State or other jurisdiction of incorporation or organization)	(Primary standard industrial classification code number)	(I.R.S. Employer Identification No.)

RENT-A-CENTER, INC.  
5700 TENNYSON PARKWAY  
THIRD FLOOR  
PLANO, TEXAS 75024  
(972) 801-1100

COLORTYME, INC.  
1231 GREENWAY DRIVE, SUITE 900  
IRVING, TEXAS 75038  
(972) 751-1711

ADVANTAGE COMPANIES, INC.  
5700 TENNYSON PARKWAY  
THIRD FLOOR  
PLANO, TEXAS 75024  
(972) 801-1100

(Address, including zip code, and telephone number, including area code  
of each Registrant's principal executive offices)

J. ERNEST TALLEY  
CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER  
RENT-A-CENTER, INC.  
5700 TENNYSON PARKWAY  
THIRD FLOOR  
PLANO, TEXAS 75024  
(972) 801-1100  
(Name, address, including zip code, and telephone  
number,  
including area code, of Agent for service)

With Copies To:  
THOMAS W. HUGHES, ESQ.  
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5400 RENAISSANCE TOWER  
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DALLAS, TEXAS 75270-2199  
(214) 745-5400

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as  
practicable after the effective date of this Registration Statement.

If the securities being registered on this Form are being offered in  
connection with the formation of a holding company and there is compliance with  
General Instruction G, check the following box. [ ]

If this Form is filed to register additional securities for an offering  
pursuant to Rule 462(b) under the Securities Act, check the following box and  
list the Securities Act registration number of the earlier effective  
registration number for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d)  
under the Securities Act, check the following box and list the Securities Act  
registration statement number of the earlier, effective registration statement  
for the same offering. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH NOTE OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED OFFERING PRICE PER NOTE(1)	PROPOSED AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
11% Senior Subordinated Notes due 2008.....	\$175,000,000	100%	\$175,000,000	\$51,625.00
Guarantees of Senior Subordinated Notes(2).....	--	--	--	(3)

- (1) In accordance with Rule 457(f)(2), the registration fee is calculated based on the book value, which has been computed as of October 13, 1998, of the outstanding 11% Senior Subordinated Notes due 2008 of Rent-A-Center, Inc. (formerly known as Renters Choice, Inc.) to be canceled in the exchange transaction hereunder.
- (2) ColorTyme, Inc. and Advantage Companies, Inc., each a direct, wholly owned subsidiary of the Registrant, have each guaranteed the Notes being registered pursuant hereto.
- (3) Pursuant to Rule 457(n), no separate fee is payable with respect to the guarantees of the Notes being registered.

THE REGISTRANTS HEREBY AMEND THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANTS SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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## PROSPECTUS

EXCHANGE OFFER FOR  
\$175,000,000  
11% SENIOR SUBORDINATED NOTES DUE 2008  
GUARANTEED BY  
COLORTYME, INC.  
ADVANTAGE COMPANIES, INC.

## Terms of Exchange Offer

- Expires 5:00 p.m., New York City time, February 19, 1999, unless extended
- Not subject to any condition other than that the exchange offer not violate applicable law or any applicable interpretation of the Staff of the Securities and Exchange Commission
- All outstanding notes that are validly tendered and not validly withdrawn will be exchanged
- Tenders of outstanding notes may be withdrawn any time prior to the expiration of the exchange offer
- The exchange of notes should not be a taxable exchange for U.S. federal income tax purposes
- We will not receive any proceeds from the exchange offer
- The terms of the notes to be issued are substantially identical to the outstanding notes, except for certain transfer restrictions and registration rights relating to the outstanding notes
- As of December 31, 1998, we had approximately \$630.7 million of senior debt outstanding

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED THE NOTES TO BE DISTRIBUTED IN THE EXCHANGE OFFER, NOR HAVE ANY OF THESE ORGANIZATIONS DETERMINED THAT THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

JANUARY , 1999

## PROSPECTUS SUMMARY

This summary highlights some information from this prospectus, but does not contain all material features of the exchange offer. Please read the detailed information and consolidated financial statements and the notes thereto appearing elsewhere in this prospectus.

Rent-A-Center has grown significantly by acquiring other companies during the periods discussed in this prospectus. To help you understand our growth, we think the following explanations will be useful to you:

- - After December 31, 1998, Rent-A-Center is the combined business of Rent-A-Center (formerly known as Renters Choice) and its subsidiaries, ColorTyme and Advantage Companies;
- - Between August 5, 1998 and December 31, 1998, Rent-A-Center was the combined business of Renters Choice and its subsidiaries, ColorTyme and Thorn Americas; and
- - Prior to and including August 5, 1998, Rent-A-Center was the businesses of Renters Choice and ColorTyme.

## THE EXCHANGE OFFER

- Exchange Notes..... The forms and terms of the exchange notes are identical in all material respects to the terms of the old notes, except for certain transfer restrictions, registration rights and liquidated damages provisions relating to the old notes. These are described elsewhere in this prospectus under "Description of the Notes and Guarantees" and "Old Notes Exchange and Registration Rights Agreement."
- The Exchange Offer..... We are offering to exchange up to \$175,000,000 of the exchange notes for up to \$175,000,000 of the old notes. Old notes may be exchanged only in \$1,000 increments.
- Expiration Date; Withdrawal of Tender..... Unless we extend the exchange offer, it will expire at 5:00 p.m., New York City time, on February 19, 1999. We will not extend this time period to a date later than March 5, 1999. You may withdraw any old notes you tender pursuant to the exchange offer at any time prior to February 19, 1999. We will return, as promptly as practicable after the expiration or termination of the exchange offer, any old notes not accepted for exchange for any reason without expense to you.
- Certain Conditions to the Exchange Offer..... The exchange offer is subject to the following conditions, which we may waive.

These conditions permit us to refuse acceptance of the old notes or to terminate the exchange offer if:

- a lawsuit is instituted or threatened in a court or before a government agency which may impair our ability to proceed with the exchange offer;
- a law, statute, rule or regulation is proposed or enacted or interpreted by the SEC which may impair our ability to proceed with the exchange offer; or
- any governmental approval is not received which we think is necessary to consummate the exchange offer.

Procedures for Tendering Old  
Notes.....

If you wish to accept the exchange offer, you must complete, sign and date the letter of transmittal in accordance with the instructions, and deliver the letter of transmittal, along with the old notes and any other required documentation, to the exchange agent. By executing the letter of transmittal, you will represent to us that, among other things:

- any exchange notes you receive will be acquired in the ordinary course of your business,
- you have no arrangement with any person to participate in the distribution of the exchange notes, and
- you are not an affiliate of Rent-A-Center or, if you are an affiliate, you will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable.

If you hold your old notes through the Depository Trust Corporation and wish to participate in the exchange offer, you may do so through the Depository Trust Corporation's Automated Tender Offer Program. By participating in the exchange offer, you will agree to be bound by the letter of transmittal as though you had executed such letter of transmittal.

Interest on the New Notes....

Interest on the exchange notes accrues from the date of issuance at the rate of 11% per annum.

Payment of Interest.....

Interest is payable semi-annually in arrears on each February 15 and August 15, commencing on February 15, 1999.

On February 15, 1999, holders of the exchange notes will also receive an amount equal to the accrued interest on the old notes. Interest on the old notes accepted for

exchange will stop accruing upon the issuance of the exchange notes.

Special Procedures for  
Beneficial Owners.....

If you are a beneficial owner whose old notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and wish to tender such old notes in the exchange offer, please contact the registered holder as soon as possible and instruct them to tender on your behalf and comply with our instructions set forth elsewhere in this prospectus.

Guaranteed Delivery  
Procedure.....

If you wish to tender your old notes, you may, in certain instances, do so according to the guaranteed delivery procedures set forth elsewhere in this prospectus under "The Exchange Offer -- Guaranteed Delivery Procedures."

Registration Rights  
Agreement.....

We sold the old notes and the related guarantees to the initial purchasers in a transaction exempt from the registration requirements of the Securities Act of 1933 on August 18, 1998. At that time, Rent-A-Center and the initial purchasers entered into a registration rights agreement which grants the holders of the old notes certain exchange and registration rights. This exchange offer satisfies those rights, which terminate upon consummation of the exchange offer. You will not be entitled to any exchange or registration rights with respect to the exchange notes.

Certain Federal Tax  
Considerations.....

With respect to the exchange of the old notes for the exchange notes:

- the exchange should not constitute a taxable exchange for U.S. federal income tax purposes,
- you should not recognize gain or loss upon receipt of the exchange notes,
- you must include interest in gross income to the same extent as the old notes, and
- you should be able to tack the holding period of the exchange notes to the holding period of the old notes.

Use of Proceeds.....

We will not receive any proceeds from the exchange of notes pursuant to the exchange offer.

Exchange Agent.....

We have appointed IBJ Whitehall Bank & Trust Company as the exchange agent for the exchange offer. The address and telephone number of the Exchange Agent are IBJ Whitehall Bank & Trust Company, P. O. Box 84, Bowling Green Station, New York, New York 10274-0084, telephone (212) 858-2103.

## TERMS OF THE NOTES AND GUARANTEES

The form and terms of the exchange notes are substantially the same as the form and terms of the old notes, except that the exchange notes are registered under the Securities Act. As a result, the exchange notes will not bear legends restricting their transfer and will not contain the registration rights and liquidated damages provisions contained in the old notes.

Issuer.....	Rent-A-Center, Inc. We changed our name from Renters Choice, Inc. on December 31, 1998.
Guarantors.....	ColorTyme, Inc. and Advantage Companies, Inc.
Securities Offered.....	\$175,000,000 aggregate principal amount of 11% Senior Subordinated Notes due 2008.
Maturity.....	August 15, 2008
Interest Payment Dates.....	February 15 and August 15 of each year, commencing February 15, 1999.
Sinking Fund.....	None.
Optional Redemption.....	Except as described below and under "Change of Control," we may not redeem the notes prior to August 15, 2003. After August 15, 2003, we may redeem any amount of the notes at any time at the respective redemption prices, together with accrued and unpaid interest, if any, to the date of redemption. In addition, at any time prior to August 15, 2001, we may redeem up to 33.33% of the original aggregate principal amount of the notes with the cash proceeds of one or more equity offerings. Should we do so, we would be required to pay a redemption price equal to 111% of the principal amount of the notes to be redeemed, together with accrued and unpaid interest, if any, to the date of redemption. We would still be required to keep at least 66.67% of the original aggregate principal amount of the notes outstanding after such a redemption.
Change of Control.....	Upon the occurrence of a change of control (as defined), 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. In the event of a change of control, Rent-A-Center may not have sufficient funds available to repurchase the exchange notes.
Ranking.....	The notes will be unsecured and will be subordinated to all existing and future senior indebtedness of Rent-A-Center. The notes will rank without preference with all existing and future senior subordinated indebtedness of Rent-A-Center and will rank senior to all existing and future subordinated obligations of Rent-A-Center.
Guarantees.....	The guarantees are general unsecured obligations of the subsidiary guarantors and are subordinated in right of payment to all existing and future guarantor senior indebtedness. The guarantees are joint and several.



- Restrictive Covenants..... The indenture under which the exchange notes will be issued and the old notes were issued limits:
- the incurrence of additional indebtedness by us and our subsidiaries,
  - the payment of dividends on, and redemption of, our capital stock and our subsidiaries' capital stock and the redemption of our and our subsidiaries' subordinated obligations,
  - investments,
  - sales of assets and subsidiary stock,
  - transactions with affiliates,
  - sale and leaseback transactions, and
  - liens.

In addition, the indenture limits our ability to engage in consolidations, mergers and transfers of substantially all of our assets and also contains certain restrictions on distributions from our subsidiaries. All of these limitations and prohibitions are subject to a number of important qualifications and exceptions.

- Absence of a Public Market for the Exchange Notes..... In general, you may freely transfer the exchange notes. However, there are exceptions to this general statement. Holders may not freely transfer the exchange notes if:
- they acquire the exchange notes outside of their ordinary course of business,
  - they have an arrangement with any person to participate in the distribution of the exchange notes, or
  - they are an affiliate of Rent-A-Center.

Further, the exchange notes will be new securities for which there will not initially be a market. As a result, the development or liquidity of any market for the exchange notes may not occur. The initial purchasers have advised us that they currently intend to make a market in the exchange notes. However, you should be aware that the initial purchasers are not obligated to do so. In the event such a market may develop, the initial purchasers may discontinue it at any time without notice. We do not intend to apply for a listing of the exchange notes on any securities exchange or on any automated dealer quotation system.

## RENT-A-CENTER

We are the largest operator in the U.S. rent-to-own industry with approximately 25% of the market share of rent-to-own stores. At December 31, 1998, we operated 2,126 company-owned stores and franchised 324 stores in the United States and Puerto Rico. Our stores offer home electronics, appliances and furniture and accessories under flexible rental purchase agreements that allow our customers to obtain ownership of the merchandise at the conclusion of an agreed upon rental period.

Our principal executive office is located at 5700 Tennyson Parkway, Third Floor, Plano, Texas 75024. Our telephone number is (972) 801-1100.

## RECENT DEVELOPMENTS

**Central Rents Acquisition.** In May 1998, we acquired substantially all of the assets of Central Rents, Inc., for approximately \$100 million. Central Rents operated 176 stores located primarily in California, the Southwest, Midwest and South. This acquisition expanded our presence in a region of the country, the Southwest, which we strategically targeted for expansion. We expect to generate an additional \$2.6 million in annual general and administrative cost savings as a result of this acquisition. These cost savings will be derived primarily from the elimination of duplicative corporate and administrative functions. In addition to these general and administrative cost reductions, we anticipate that we will gradually bring the store operating performance of Central Rents in line with our own store margins within 24-30 months following the acquisition.

During the first 30 days following this acquisition, we converted all of the Central Rents stores to our management information system and began implementing our human resource, purchasing and advertising programs, as well as other processes that are essential in our system. Our immediate focus in these stores is to improve operations and continue to build strength in store management personnel.

**Thorn Americas Acquisition.** On August 5, 1998, we acquired Thorn Americas pursuant to an agreement dated June 16, 1998 with Thorn plc, a company incorporated under the laws of England and Wales, for approximately \$900 million in cash, including the repayment of certain debt of Thorn Americas, subject to adjustment. Prior to this acquisition, Thorn Americas was the largest rent-to-own competitor with 1,404 company-owned stores and 65 franchised stores in 49 states and the District of Columbia. Thorn Americas operated stores under three brand names, "Rent-A-Center," "Remco" and "U-Can-Rent." Thorn Americas operated 1,158 stores under the Rent-A-Center brand, the most widely recognized store name in the rent-to-own industry.

We financed the acquisition of Thorn Americas through certain financing arrangements, consisting of a senior credit facility and a senior subordinated facility. We also issued a total of \$260 million in preferred stock to certain affiliates of Apollo Management IV, L.P. and to an affiliate of Bear, Stearns & Co. Inc. to assist in the funding of the Thorn Americas acquisition, to repurchase \$25 million of our common stock and to repay our prior credit facility. Following the acquisition of Thorn Americas, we issued the old notes to repay the senior subordinated facility. In connection with the acquisition of Thorn Americas, we assumed certain of Thorn Americas' ongoing litigation, including an adverse

New Jersey state court judgment which, as discussed below, has been settled in principle. You should read the sections entitled "Risk Factors -- Legal Proceedings" and "Business -- Legal Proceedings" located elsewhere in this prospectus for a detailed discussion of our pending litigation.

We are currently in the process of integrating the stores acquired in the Thorn Americas acquisition and we believe that we will realize over \$30 million in net annual cash cost savings upon completion of our integration plan. Specifically, we have shut down the former corporate headquarters of Thorn Americas in Wichita, Kansas and moved that facility to our new facility in Plano, Texas. Additionally, the conversion of Thorn Americas' store management information systems to our management information system was completed during the fourth quarter of 1998. We also eliminated Thorn Americas' product distribution network and replaced it with our system of drop shipments to our stores by our vendors. We closed the Thorn Americas warehouses during the fourth quarter of 1998 and expect to utilize all remaining excess inventory in the normal rental process in our stores during the first two quarters of 1999. We retained the Thorn Americas product repair network and are utilizing it to provide product repair services to our customers in our stores. We decided to operate all of our stores under the Rent-A-Center trade name and have substantially completed the conversion of the Renters Choice, Remco and U-Can-Rent stores to the Rent-A-Center trade name. With the actions described above well underway, our original assumption of a transition period of up to 12 months for integrating the Thorn Americas stores is progressing as planned and should be completed on schedule.

Settlement of New Jersey Litigation. On December 14, 1998, we settled in principle three lawsuits arising out of our operations in New Jersey for approximately \$60.0 million. The settlement of these three cases, Robinson v. Thorn Americas, Inc. et al, Gallagher v. Crown Leasing Corporation et al and Boykin v. Renters Choice, Inc. are contingent upon each other and subject to preliminary and final court approval. We anticipate receiving preliminary court approval of these settlements during the first quarter of 1999. Please read the section entitled "Business -- Legal Proceedings" for a discussion concerning this settlement and our pending litigation.

Reorganization, Name Change and Supplemental Indenture. On December 31, 1998, we merged Thorn Americas into Renters Choice and changed our name to Rent-A-Center. On that date, we also assigned certain intangible property to Advantage Companies, our wholly owned subsidiary. As a result of this reorganization, we entered into a supplemental indenture with the Trustee naming Advantage Companies as a Subsidiary Guarantor of the notes. The supplemental indenture does not materially alter any provision of the indenture, except as to the naming of Advantage Companies as a Subsidiary Guarantor.

#### RISK FACTORS

You should consider carefully the information set forth under the caption "Risk Factors" beginning on page 19 and all the other information set forth in this prospectus before deciding whether to participate in the exchange offer.

SUMMARY UNAUDITED PRO FORMA  
COMBINED FINANCIAL DATA  
(DOLLARS IN THOUSANDS)

Our Unaudited Pro Forma Combined Financial Information gives effect to both the offering of the old notes and the acquisitions of Central Rents and Thorn Americas, as if these transactions had occurred on January 1, 1997. The acquisitions of Central Rents and Thorn Americas were completed on May 28, 1998 and August 5, 1998, respectively, and have been reflected within the Rent-A-Center historical balance sheet as of September 30, 1998 and the Rent-A-Center historical statement of operations since their dates of acquisition. The Unaudited Pro Forma Combined Statement of Operations for the year ended December 31, 1997 includes Thorn Americas' historical information for the year ended March 31, 1998, which was its fiscal year end. In the opinion of management, all adjustments have been made that are necessary to present fairly the pro forma data.

Our Unaudited Pro Forma Combined Financial Information is not indicative of Rent-A-Center's results of operations as of September 30, 1998, nor for any future date, and is not necessarily indicative of what Rent-A-Center's results of operations would have been had both the offering of the old notes and the acquisitions of Central Rents and Thorn Americas occurred on January 1, 1997. Further, it does not give effect to

- any transactions other than the foregoing transactions and those described in the accompanying Notes to Unaudited Pro Forma Combined Financial Information, or
- Rent-A-Center's, Central Rents', or Thorn Americas' results of operations since September 30, 1998.

The following Unaudited Pro Forma Combined Financial Information does not give effect to expected annual pre-tax net savings of \$23.5 million from the elimination of duplicative general and administrative and field expenses as a result of the acquisitions mentioned above, nor does it give effect to additional annual pre-tax net savings of \$9.9 million expected to be achieved resulting from the acquisition of Thorn Americas, relating principally to changes made to its product distribution network, and the utilization of its service and repair network.

The following Unaudited Pro Forma Combined Financial Information is based upon the historical financial statements of Rent-A-Center, Central Rents, and Thorn Americas, and should be read in conjunction with such historical financial statements, the related notes, and the Notes to Unaudited Pro Forma Combined Financial Information.

Nonrecurring charges represent:

- - approximately \$4.5 million in both the year ended December 31, 1997 and the nine months ended September 30, 1998 of restructuring charges relating to the closing of certain non-performing stores, and the reorganization of certain administrative support functions, and
- - approximately \$2.1 and \$1.1 million in the year ended December 31, 1997 and the nine months ended September 30, 1998, respectively, related primarily to Thorn Americas' writedown of cellular phone inventory.

## SUMMARY UNAUDITED PRO FORMA COMBINED STATEMENTS OF OPERATIONS

	COMBINED PRO FORMA	
	YEAR ENDED DECEMBER 31, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1998
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)	
STATEMENTS OF OPERATIONS DATA:		
Revenue.....	\$1,314,712	\$1,027,581
Operating expenses		
Direct store expenses		
Depreciation of rental merchandise.....	328,000	247,885
Other.....	716,612	569,691
	1,044,612	817,576
Franchise cost of merchandise sold.....	35,841	27,318
General and administrative expenses.....	73,712	61,825
Nonrecurring charges.....	6,600	5,600
Amortization of intangibles.....	26,813	20,521
Total operating expenses.....	1,187,578	932,840
Operating profit.....	127,134	94,741
Interest expense.....	83,219	67,431
Interest income.....	(392)	(1,932)
Earnings before income taxes.....	44,307	29,242
Income tax expense.....	25,290	17,372
Net earnings.....	19,017	11,870
Preferred dividends.....	9,888	7,662
Earnings allocable to common stockholders.....	\$ 9,129	\$ 4,208
OTHER FINANCIAL DATA:		
Basic earnings per share.....	\$ .38	\$ .18
Diluted earnings per share.....	\$ .38	\$ .17
Ratio of earnings to fixed charges.....	1.4x	1.4x
OPERATING DATA:		
Number of stores (end of period).....	2,065	2,125
Revenue data:		
Store		
Rentals and fees.....	\$1,204,971	\$ 938,376
Merchandise sales.....	65,289	53,522
Other.....	793	2,094
Franchise		
Merchandise sales.....	37,385	28,440
Royalty income and fees.....	6,274	5,149
Total revenue.....	\$1,314,712	\$1,027,581

## RENT-A-CENTER

## SUMMARY HISTORICAL FINANCIAL DATA

Our summary historical financial data as of and for each of the five years in the period ended December 31, 1997, have been derived from our consolidated financial statements which have been audited and reported upon by Grant Thornton LLP. Our summary historical financial data as of and for the nine months ended September 30, 1997 and 1998 have been derived from our unaudited consolidated financial statements which were prepared on the same basis as our audited financial statements and include, in the opinion of our management, all adjustments necessary to present fairly the information presented for such interim periods. Please read this information in conjunction with our audited consolidated financial statements and notes thereto included herein, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and other financial information included elsewhere in this prospectus. Because of our significant growth from acquisitions, the historical results of operations, the period-to-period comparisons of such results and certain financial data may not be comparable, meaningful or indicative of future results.

In each of the periods presented ending prior to January 1, 1995, Rent-A-Center operated as an S corporation under Subchapter S of the Internal Revenue Code and comparable provisions of certain state tax laws. Accordingly, prior to January 1, 1995, Rent-A-Center was not subject to federal income taxation; however, Rent-A-Center was subject to other income taxes, including Puerto Rico income tax and certain state income taxes. Earnings per share are not provided for periods prior to January 1, 1995, because operating results for those periods are not comparable. Depreciation and amortization expense and capital expenditures, as presented within other financial data, excludes depreciation of rental merchandise and purchases of rental merchandise, respectively. Nonrecurring finance charges for the nine months ended September 30, 1998 relate principally to interim financing utilized in the acquisition of Thorn Americas until permanent financing was obtained. These finance charges include an availability fee of 1.25% and a utilization fee of 1.5% on the \$175 million bridge loan which was utilized for approximately two weeks before being repaid.

RENT-A-CENTER  
SUMMARY HISTORICAL DATA -- (CONTINUED)

	YEARS ENDED DECEMBER 31,					NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1996	1997	1997	1998
	(DOLLARS IN THOUSANDS)						
<b>STATEMENTS OF EARNINGS DATA:</b>							
Total revenue.....	\$53,212	\$74,385	\$133,289	\$237,965	\$331,541	\$239,253	\$ 459,433
Direct store expenses							
Depreciation of rental							
merchandise.....	11,626	15,614	29,640	42,978	57,223	42,271	91,382
Other store expenses.....	29,576	40,701	74,966	124,934	173,823	127,694	255,177
	41,202	56,315	104,606	167,912	231,046	169,965	346,559
Franchise operating							
expense.....	--	--	--	24,010	35,841	22,929	27,318
General and administrative							
expenses.....	2,151	2,809	5,766	10,111	13,304	9,597	18,054
Amortization of							
intangibles.....	5,304	6,022	3,109	4,891	5,412	4,016	7,767
	48,657	65,146	113,481	206,924	285,603	206,507	399,698
Total operating							
expenses.....							
Operating profit....	4,555	9,239	19,808	31,041	45,938	32,746	59,735
Interest expense.....	1,817	2,160	2,202	606	2,194	1,402	18,469
Nonrecurring financing							
costs.....	--	--	--	--	--	--	5,017
Interest income.....	--	--	(890)	(667)	(304)	(256)	(1,932)
	2,738	7,079	18,496	31,102	44,048	31,600	38,181
Earnings before							
income taxes.....							
Income tax expense.....	937	1,600	7,784	13,076	18,170	13,108	17,153
	1,801	5,479	10,712	18,026	25,878	18,492	21,028
Net earnings.....							
Preferred dividends.....	--	--	--	--	--	--	1,496
	\$ 1,801	\$ 5,479	\$ 10,712	\$ 18,026	\$ 25,878	\$ 18,492	\$ 19,532
Net earnings							
allocable to							
common							
stockholders.....							
Basic earnings per share....			\$ .52	\$ .73	\$ 1.04	\$ .74	\$ .79
Diluted earnings per							
share.....			\$ .52	\$ .72	\$ 1.03	\$ .74	\$ .78
<b>OTHER FINANCIAL DATA:</b>							
Depreciation and							
amortization.....	\$ 6,164	\$ 7,207	\$ 5,239	\$ 8,571	\$ 11,013	\$ 8,002	\$ 18,306
Capital expenditures.....	1,489	1,715	3,473	8,187	10,446	7,636	9,732
Ratio of earnings to fixed							
charges.....	2.1x	3.2x	5.1x	7.9x	6.7x	7.8x	2.7x
<b>BALANCE SHEET DATA (END OF PERIOD):</b>							
Cash and cash equivalents...	\$ 1,359	\$ 1,441	\$ 35,321	\$ 5,920	\$ 4,744	\$ 6,280	\$ 90,483
Rental merchandise, net....	20,672	28,096	64,240	95,110	112,759	109,696	481,981
Total assets.....	34,813	36,959	147,294	174,467	208,868	206,385	1,646,813
Total debt.....	27,592	23,383	40,850	18,993	27,172	33,652	892,912
Total stockholders'							
equity.....	4,168	9,286	96,484	125,503	152,753	144,742	148,879

RENT-A-CENTER  
SUMMARY HISTORICAL DATA -- (CONTINUED)

	YEARS ENDED DECEMBER 31,					NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1996	1997	1997	1998
	(DOLLARS IN THOUSANDS)						
<b>OPERATING DATA:</b>							
Number of stores (end of period).....	112	114	325	423	504	503	2,125
Average annual revenue per store.....	\$ 591	\$ 653	\$ 626	\$ 608	\$ 610	\$ 611	\$ 600
Comparable store revenue growth.....	11.1%	10.8%	18.1%	3.8%	8.1%	9.0%	8.7%
<b>REVENUES:</b>							
Store revenue							
Rentals and fees.....	\$51,162	\$70,590	\$126,264	\$198,486	\$275,344	\$200,970	\$ 400,793
Merchandise sales.....	1,678	3,470	6,383	10,604	14,125	10,774	24,329
Other.....	372	325	642	687	679	525	2,094
Franchise revenue							
Merchandise sales.....	--	--	--	25,229	37,385	23,971	28,440
Royalty income and fees...	--	--	--	2,959	4,008	3,013	3,777
Total revenue.....	\$53,212	\$74,385	\$133,289	\$237,965	\$331,541	\$239,253	\$ 459,433



## THORN AMERICAS

## SUMMARY HISTORICAL FINANCIAL DATA

The summary historical financial data for Thorn Americas as of and for each of the three years in the period ended March 31, 1998, have been derived from Thorn Americas' audited consolidated financial statements. The summary historical financial data for Thorn Americas as of and for the three months ended June 30, 1997 and 1998 have been derived from Thorn Americas' unaudited consolidated financial statements which were prepared on the same basis as Thorn Americas' audited financial statements and include, in the opinion of Thorn Americas' management, all adjustments necessary to present fairly the information presented for such interim periods.

As part of the acquisition of Thorn Americas, we acquired several Non-Rent-to-Own Businesses including used automobile retailing, credit retailing and check cashing businesses which began generating revenues in fiscal 1998. We sold AdvantEDGE Auto, Inc. in August 1998 for \$4.0 million and are in the process of discontinuing the remaining Non-Rent-to-Own Businesses. The Rent-to-Own financial and certain operating data presented below represents Thorn Americas' historical financial results, excluding the operations of these Non-Rent-to-Own Businesses, which were accounted for as separate divisions. Under the caption Rent-to-Own financial data, depreciation and amortization excludes depreciation of rental merchandise, and capital expenditures excludes purchases of rental merchandise.

Nonrecurring charges in 1996 relate to the consolidation of corporate and field offices and reductions in the number of employees. In 1998, nonrecurring charges represent (A) approximately \$12.3 million in charges related to discontinued Non-Rent-to-Own Businesses, closure of certain nonperforming rent-to-own stores and reorganized administrative support functions, and (B) approximately \$2.1 million related primarily to Thorn Americas' writedown of cellular phone inventory.

Please read this information in conjunction with the consolidated financial statements of Thorn Americas and notes thereto included herein, "Management's Discussion and Analysis of Financial Conditions and Results of Operations of Thorn Americas," and the other financial information included elsewhere in this prospectus.

## THORN AMERICAS

## SUMMARY HISTORICAL FINANCIAL DATA

	YEARS ENDED MARCH 31,			THREE MONTHS ENDED JUNE 30,	
	1996	1997	1998	1997	1998
(DOLLARS IN THOUSANDS)					
STATEMENTS OF OPERATIONS DATA:					
Total revenue.....	\$ 897,927	\$ 926,871	\$ 904,004	\$ 225,641	\$ 235,421
Cost of sales.....	43,345	39,793	45,574	8,524	12,503
Depreciation and amortization					
Rental merchandise.....	257,383	260,433	244,572	62,852	62,886
Other.....	52,236	59,085	56,869	14,598	14,532
Salaries, wages and fringe					
benefits.....	255,768	272,242	279,796	68,488	72,960
Other operating expenses.....	202,577	233,015	207,460	50,654	68,903
Nonrecurring charges.....	12,600	--	14,392	--	--
Total operating expenses.....	823,909	864,568	848,663	205,116	231,784
Operating profit.....	74,018	62,303	55,341	20,525	3,637
Interest expense, net.....	80,207	52,651	46,184	10,825	11,191
Other (income) expense.....	101	(254)	(88)	(81)	72
Earnings (loss) before income taxes.....	(6,290)	9,906	9,245	9,781	(7,626)
Income tax expense (benefit)....	6,771	13,880	7,760	5,950	(1,156)
Net earnings (loss)....	\$ (13,061)	\$ (3,974)	\$ 1,485	\$ 3,831	\$ (6,470)
RENT-TO-OWN FINANCIAL DATA:					
Depreciation and amortization...	\$ 52,236	\$ 59,085	\$ 56,464	\$ 14,541	\$ 14,387
Capital expenditures.....	44,642	29,906	33,187	5,630	15,454
BALANCE SHEET DATA (END OF PERIOD):					
Cash and cash equivalents.....	\$ 19,225	\$ 26,077	\$ 23,755	\$ 37,399	\$ 27,486
Rental merchandise, net.....	304,164	276,012	292,965	268,564	303,682
Total assets.....	1,242,211	1,108,280	1,079,109	1,086,784	1,092,296
Total debt.....	1,042,729	714,235	714,223	714,827	714,663
Total stockholder's equity.....	88,529	239,026	236,483	242,857	230,013
RENT-TO-OWN OPERATING DATA:					
Number of stores (end of period).....	1,306	1,367	1,384	1,392	1,404
Average annual revenue per store.....	\$ 744	\$ 694	\$ 639	\$ 648	\$ 653
Revenues:					
Store revenue					
Rentals and fees.....	\$ 827,935	\$ 864,256	\$ 831,025	\$ 212,256	\$ 217,616
Merchandise sales.....	64,628	60,249	46,337	10,636	9,296
Franchise royalty income.....	5,364	2,366	2,266	582	560
Total rent-to-own revenue.....	897,927	926,871	879,628	223,474	227,472
Non-rent-to-own revenue.....	--	--	24,376	2,167	7,949
Total revenue.....	\$ 897,927	\$ 926,871	\$ 904,004	\$ 225,641	\$ 235,421

## WHERE YOU CAN FIND MORE INFORMATION

Rent-A-Center files annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any reports, statements and other information we file at the SEC's public reference rooms in Washington, D.C., New York, New York, and Chicago, Illinois. Please call 1-800-SEC-0330 for further information on the public reference rooms. Our filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at <http://www.sec.gov>.

We, together with the subsidiary guarantors, have filed a registration statement on Form S-4 to register with the SEC the exchange notes to be issued in exchange for the old notes. This prospectus is part of that registration statement. As allowed by the SEC's rules, this prospectus does not contain all of the information you can find in the registration statement or the exhibits to the registration statement.

## FORWARD-LOOKING STATEMENTS

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

- - the uncertainties and or potential delays associated with respect to implementing Rent-A-Center's business plans in the stores acquired in the Thorn Americas and Central Rents acquisitions,
- - the ability to enhance the performance of the other acquired stores and to integrate the other acquired store into Rent-A-Center's operations,
- - the ability to acquire additional rent-to-own stores on favorable terms,
- - uncertainties regarding the ability to open new stores,
- - the passage of legislation adversely affecting the rent-to-own industry,
- - interest rates,
- - Rent-A-Center's ability to collect on its rental purchase agreements at the current rate, and
- - the other risks detailed from time to time in our SEC reports.

You should not unduly rely on these forward-looking statements, which speak only as of the date of this prospectus. 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 prospectus or to reflect the occurrence of unanticipated events. Important factors that could cause our actual results to differ materially from our expectations are discussed under "Risk Factors" and elsewhere in this prospectus. All subsequent written and oral forward-looking statements attributable to Rent-A-Center, or persons acting on its behalf, are expressly qualified in their entirety by the statements in those sections.

## RISK FACTORS

You should carefully consider the information below in addition to everything else we have told you in this prospectus in evaluating whether or not you should participate in the exchange offer.

IF THE OPERATIONS OF THORN AMERICAS ARE NOT SUCCESSFULLY INTEGRATED WITH OUR OPERATIONS, OUR FINANCIAL RESULTS MAY BE ADVERSELY AFFECTED.

You should be aware that the benefits we anticipate in the combination of Rent-A-Center and Thorn Americas may not be realized if combining Rent-A-Center's business and Thorn Americas' business cannot be accomplished in an efficient and effective manner. This combination will require, among other things, the integration of management philosophies and personnel, arrangements with third party vendors, standardization of training programs, realization of operating efficiencies, and effective coordination of sales and marketing and financial reporting efforts. You should also be aware that acquisitions in general are subject to a number of special risks, including adverse short-term effects on our reported operating results, diversion of management's attention, and unanticipated problems or legal liabilities. Although we have a history of successful acquisitions, we cannot assure you that this acquisition and the integration of Thorn Americas' operations into Rent-A-Center's will be successful or accomplished efficiently. You should be aware that if we fail to integrate Thorn Americas' operations successfully, our operations and financial results could be affected, both materially and adversely.

IF WE CANNOT ADEQUATELY MANAGE OUR INCREASED SIZE RESULTING FROM OUR ACQUISITION OF THORN AMERICAS, OUR FUTURE OPERATIONS MAY BE ADVERSELY AFFECTED.

Our operations more than doubled with the purchase of Thorn Americas. Our future operations depend largely upon our ability to manage this sizeable and growing business profitably. Although, we believe, with the implementation of our management philosophy, that we can accomplish this task, we cannot guarantee to you that we will. If we fail to manage the size and the growth of our business, a material adverse effect could result.

WE HAVE SIGNIFICANT DEBT AND WE MAY NOT BE ABLE TO MEET OUR OBLIGATIONS.

Because of the acquisition of Thorn Americas, we have a significant amount of debt outstanding. As of December 31, 1998, we owed approximately \$805.7 million under our various debt agreements, including the old notes. The maximum amount of senior debt that we could have borrowed on that date was \$720.0 million. Under our term loans, we will be required to make minimum principal payments totalling approximately \$2.0 million in 1999, \$14.0 million in 2000, \$22.0 million in 2001, \$26.0 million in 2002 and \$30.0 million in 2003 plus applicable interest. You should be aware that this significant amount of debt could have important consequences to you as a holder of the notes, including the following:

- - We may be unable to obtain additional financing for working capital, capital expenditures, acquisitions and general corporate purposes,
- - A significant portion of our cash flow from operations must be dedicated to the repayment of the indebtedness, thereby reducing the amount of cash we have available for other purposes,

- - We may be disadvantaged as compared to our competitors as a result of the significant amount of debt we now owe, and
- - Our ability to adjust to changing market conditions and our ability to withstand competition may be hampered by the amount of debt we now owe. It may also make us more vulnerable in a downturned market.

You should be aware that our ability to repay or refinance our current debt depends on our successful financial and operating performance. You should also read the information we have included under the captions "Description of Other Indebtedness," "Description of the Notes and Guarantees," and "Business -- Business Strategy" later in this prospectus.

RESTRICTIONS IMPOSED ON RENT-A-CENTER BY OUR DEBT AGREEMENTS MAY SIGNIFICANTLY LIMIT OR PROHIBIT US FROM ENGAGING IN CERTAIN TRANSACTIONS.

The indenture and our senior credit facilities impose significant operating and financial restrictions on us and our subsidiaries.

The loan documents we signed to borrow money to acquire Thorn Americas impose significant restrictive covenants on us and require us to maintain specified financial ratios and satisfy certain financial tests. Our ability to meet these financial ratios and tests may be affected by events beyond our control and, as a result, we cannot guarantee to you that we will be able to meet such tests. In addition, the restrictions contained in the senior credit facilities could limit our ability to obtain future financing, make needed capital expenditures, withstand a future downturn in our business or in the economy or otherwise conduct necessary corporate activities. Our failure to comply with the restrictions in the indenture and the senior credit facilities could lead to a default under the terms of those documents. In the event of such a default, the applicable lender could declare all amounts borrowed and all amounts due under other instruments that contain certain provisions for cross-acceleration or cross-default due and payable. In addition, the lenders under such agreements could terminate their commitments to lend to us. If that occurs, we cannot assure you that we would be able to make payments on the exchange notes or that we would be able to find additional alternative financing. Even if we could obtain additional alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

You should also be aware that the existing indebtedness under the senior credit facilities is secured by substantially all of our and our subsidiaries' assets. Should a default or acceleration of such indebtedness occur, the holders of such indebtedness could sell the assets to satisfy all or a part of what is owed. The senior credit facilities also contain provisions prohibiting the modification of the exchange notes and limiting our ability to refinance the exchange notes. Please refer to the sections in this prospectus entitled "Description of the Notes and Guarantees -- Certain Covenants," and "Description of Other Indebtedness" later in this prospectus for additional information.

WE MAY NOT HAVE THE ABILITY TO RAISE THE FUNDS NECESSARY TO FINANCE THE CHANGE OF CONTROL OFFER WHICH MAY BE REQUIRED BY THE INDENTURE

If a change of control occurs, we may be required to make an offer to purchase all of the notes then outstanding. We would be required to purchase the notes at 101% of their principal amount, plus accrued interest to the date of repurchase. If a change of control

occurs, we cannot be sure that we would have enough funds to pay for all of the notes. If we are required to purchase the notes, we would need to secure third-party financing if we do not have available funds to meet our purchase obligations. However, we cannot be sure that we would be able to secure such financing on favorable terms, if at all.

Also, our financing arrangements will restrict our ability to repurchase the notes, including pursuant to a change of control. Furthermore, a change of control will result in an event of default under the senior credit facilities and may lead to an acceleration of any other senior indebtedness we may have at that time. In such event, the subordination provisions of the notes would require us to pay our senior credit facilities and any other senior indebtedness in full before repurchasing notes. In addition, a change of control could require us to repurchase our existing notes and we could be required to offer to redeem our convertible preferred stock. See "Description of the Notes and Guarantees -- Change of Control" and "Description of Capital Stock -- Preferred Stock -- Mandatory Redemption." The inability to repay senior indebtedness, if accelerated, and to purchase all of the tendered notes, would constitute an event of default under the indenture.

#### YOU MAY FIND IT DIFFICULT TO SELL YOUR NOTES.

Currently, there is no public market for the exchange notes or the old notes. We do not intend to apply for listing of the notes on any securities exchange or on any automated dealer quotation system. Although the initial purchasers have informed us that they intend to make a market in the notes, they are not obligated to do so and may discontinue any such market at any time without notice. In addition, such market making activity may be limited during this exchange offer or during an offering under a shelf registration statement should we decide to file one. As a result, we can make no assurances to you as to the development or liquidity of any market for the notes, your ability to sell the notes, or the price at which you may be able to sell the notes. Future trading prices of the notes will depend on many factors, including among other things, prevailing interest rates, our operating results and the market for similar securities. Historically, the market for securities similar to the notes, including non-investment grade debt, has been subject to disruptions that have caused substantial volatility in the prices of such securities. We cannot assure you that, if a market develops, it will not be subject to similar disruptions.

THE MARKET VALUE OF THE EXCHANGE NOTES COULD BE MATERIALLY ADVERSELY AFFECTED IF ONLY A LIMITED NUMBER OF EXCHANGE NOTES ARE AVAILABLE FOR TRADING.

To the extent that a large amount of old notes are not tendered or are tendered and not accepted in the exchange offer, the trading market for the exchange notes could be materially adversely affected. Generally, a limited amount, or "float," of a security could result in less demand to purchase such security and, as a result, could result in lower prices for such security. We cannot assure you that a sufficient number of old notes will be exchanged for exchange notes in the exchange offer so that this does not occur.

THERE ARE MATERIAL LEGAL PROCEEDINGS PENDING AGAINST RENT-A-CENTER, THORN AMERICAS AND COLORTYME. COSTS INCURRED BY US IN DEFENDING OURSELVES OR ASSOCIATED WITH SETTling ANY OF THESE PROCEEDINGS, OR A RULING AGAINST US IN ANY OF THESE PROCEEDINGS, COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION AND OUR BUSINESS OPERATIONS.

WE ARE THE DEFENDANT IN SEVERAL LAWSUITS SEEKING MATERIAL DAMAGES. ONE OR MORE JUDGMENTS AGAINST US IN THESE LAWSUITS COULD MATERIALLY ADVERSELY AFFECT BOTH OUR FINANCIAL CONDITION AND OUR ABILITY TO CONTINUE OUR RENT-TO-OWN BUSINESS AS PRESENTLY CONDUCTED.

The lawsuits against us generally involve claims that rent-to-own contracts are in fact disguised installment sales contracts, violate state usury laws, or violate other state laws enacted to protect consumers.

We recently settled in principle three class actions arising out of our operations in New Jersey. In *Robinson v. Thorn Americas, Inc.*, a New Jersey state court entered a judgment against Thorn Americas requiring Thorn Americas to pay the class of plaintiffs an amount in excess of \$140 million. Thorn Americas posted a \$163 million supersedeas bond. The other two class actions in New Jersey assert claims similar to the claims made against Thorn Americas in *Robinson v. Thorn Americas, Inc.* *Robinson* has been settled in principle for \$48.5 million, and the other two have been settled in principle for a total of \$11.5 million.

Because of the uncertainties associated with our remaining litigation, we cannot estimate for you our ultimate liability for these matters, if any. You should be aware that an adverse ruling on any of these cases could have a material adverse effect on our business operations and our financial condition.

A final judgment against us could materially adversely affect our financial condition by requiring the payment of the judgment or the posting of a bond. The failure to pay any such judgment would be a default under our senior credit facilities and the indenture.

A final judgment in any of these cases could also materially adversely affect our ability to transact our rent-to-own business as presently conducted. While we believe we have meritorious defenses to all actions presently pending against us, we cannot assure you that such a judgment will not be entered against us.

In addition, if such a judgment were entered against us and upheld on appeal, it could be the basis for additional litigation against us by new plaintiffs based on the same or similar claims.

We encourage you to read the section entitled "Business -- Legal Proceedings" located later in this prospectus for a more detailed discussion regarding our litigation.

RENT-TO-OWN TRANSACTIONS ARE REGULATED BY LAW IN MOST STATES. ANY CHANGE IN THESE LAWS, OR THE PASSAGE OF NEW LAWS, COULD MATERIALLY ADVERSELY AFFECT OUR BUSINESS OPERATIONS OR INCREASE OUR EXPOSURE TO LITIGATION.

In the event that legislation having a negative impact on our business is adopted, you should be aware that it could have a material adverse impact on our business operations. As is the case with most businesses, we are subject to certain governmental regulations, specifically with respect to rent-to-own transactions. There are currently 45 states that have passed laws regulating rental purchase transactions and another state that has a retail

installment sales statute that excludes rent-to-own transactions from its coverage if certain criteria are met. These laws generally require certain contractual and advertising disclosures. They also provide varying levels of substantive consumer protection, such as requiring a grace period for late fees and contract reinstatement rights in the event the rental purchase agreement is terminated. The rental purchase laws of nine states limit the total amount of rentals that may be charged over the life of a rental purchase agreement. Certain states also effectively regulate rental purchase transactions under other consumer protection statutes. You should also be aware that we are currently subject to outstanding judgments and other litigation alleging that we, or our subsidiaries, have violated some of these statutory provisions. You should also read the information under the section "Business -- Legal Proceedings" later in this prospectus for a more complete discussion of these matters.

Although there is no comprehensive federal legislation regulating rental-purchase transactions, we cannot assure you that such legislation will not be enacted in the future. From time to time, legislation has been introduced in Congress seeking to regulate our business. In addition, we cannot assure you that the various legislatures in the states where we currently do business will not adopt new legislation or amend existing legislation that negatively affects us. You should also read the section entitled "Business -- Government Regulation" appearing later in this prospectus for additional discussions related to this matter.

OUR BUSINESS DEPENDS ON A LIMITED NUMBER OF KEY PERSONNEL, AND WE DO NOT HAVE EMPLOYMENT AGREEMENTS WITH ANY OF THEM. THE LOSS OF ANY ONE OF THESE COULD ADVERSELY AFFECT OUR BUSINESS.

Rent-A-Center's continued success is highly dependent upon the personal efforts and abilities of our senior management, including J. Ernest Talley, our Chairman of the Board and Chief Executive Officer, Mark E. Speese, our President and Chief Operating Officer, and L. Dowell Arnette, our Executive Vice President. We do not have employment contracts with any of these officers and the loss of any one of them could impact us in a negative way. Please also read the "Management" section later in this prospectus for additional information.

48.7% OF OUR VOTING STOCK IS OWNED BY A SMALL GROUP OF OUR DIRECTORS AND THEIR AFFILIATES. THIS GROUP WOULD BE ABLE TO EFFECTIVELY CONTROL RENT-A-CENTER SINCE THE ELECTION OF DIRECTORS AND MAJOR TRANSACTIONS ONLY REQUIRE THE VOTE OF A MAJORITY OF OUR STOCKHOLDERS.

You should be aware that a total of approximately 48.7% of our voting stock on a fully diluted basis is controlled by Messrs. Talley, Speese and by certain affiliates of Apollo Management IV, L.P. As a result, in the event they act together, they have the ability to exercise practical control over the outcome of actions requiring the approval of our stockholders, including potential acquisitions, elections of our Board of Directors and sales or changes in control of Rent-A-Center. You should read the section entitled "Security Ownership of Certain Beneficial Owners and Management" later in this prospectus for additional information.



WE COULD BE ADVERSELY AFFECTED IF OUR OR OUR VENDORS' COMPUTER SYSTEMS ARE NOT YEAR 2000 COMPLIANT.

Year 2000 issues exist when dates are recorded in computers using two digits, rather than four, and are then used for arithmetic operations, comparisons or sorting. A two-digit recording may recognize a date using "00" as 1900 rather than 2000, which could cause our computer systems to perform inaccurate computations. We have received confirmation from our management information systems vendors that our system is Year 2000 compliant. You should be aware that Year 2000 issues relate not only to our systems, but also to those used by our suppliers. We anticipate that system replacements and modifications will resolve any Year 2000 issues that may exist with our suppliers or their suppliers. However, we cannot guarantee to you that such replacements or modifications will be completed successfully or on time and, as a result, any failure to complete such modifications on time could materially affect our financial and operating results in a negative way. Please read the additional discussion regarding the Year 2000 issue and the potential impact on our business in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations -- Rent-A-Center -- Year 2000 Conversion" later in this prospectus for additional information.

#### USE OF PROCEEDS OF THE EXCHANGE NOTES

This exchange offer is intended to satisfy our obligations under the Exchange and Registration Rights Agreement dated as of August 18, 1998 by and between Rent-A-Center and Chase Securities Inc., Bear, Stearns & Co. Inc., NationsBanc Montgomery Securities LLC, and Credit Suisse First Boston Corporation, as initial purchasers. We will not receive any cash proceeds from the issuance of the exchange notes. We will only receive old notes with a total principal amount equal to the total principal amount of the exchange notes issued in the exchange offer.

## CAPITALIZATION

The following table sets forth the unaudited capitalization of Rent-A-Center as of September 30, 1998. The information set forth below should be read in conjunction with the "Summary Historical Financial Data of Rent-A-Center" and the notes thereto, "Selected Historical Financial Data of Rent-A-Center," and notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements of Rent-A-Center and the notes thereto included elsewhere in this prospectus.

	AS OF SEPTEMBER 30, 1998 ----- (DOLLARS IN MILLIONS)
Senior Revolving Credit Facility(1).....	\$ 1.2
Letter of Credit/Multidraw Facility(2).....	--
Senior Term Loan A(3).....	119.3
Senior Term Loan B(4).....	268.4
Senior Term Loan C(5).....	328.0
Other debt outstanding.....	1.0
Senior Subordinated Facility(6).....	--
Senior Subordinated Notes Due 2008(6).....	175.0
	-----
Total debt.....	892.9
Convertible Preferred Stock(7).....	259.5
Stockholders' equity.....	148.9
	-----
Total capitalization.....	<b>\$1,301.3</b> =====

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- (1) The Senior Revolving Credit Facility provides for borrowings of up to \$120.0 million.
- (2) The Letter of Credit/Multidraw Facility was initially used to post a letter of credit in the amount of \$122.25 million to support a \$163 million bond relating to certain New Jersey litigation, which has been settled in principle. See "Business -- Legal Proceedings." Once the Letter of Credit has been terminated, Rent-A-Center may borrow up to \$85 million until 2004.
- (3) Senior Term Loan A is a 6.0 year facility in an aggregate principal amount of \$120 million.
- (4) Senior Term Loan B is a 7.5 year facility in an aggregate principal amount of \$270 million.
- (5) Senior Term Loan C is a 8.5 year facility in an aggregate principal amount of \$330 million.
- (6) The proceeds from the sale of the old notes and available cash were used to repay \$175 million outstanding under the Senior Subordinated Facility.
- (7) In connection with financing a portion of the acquisition of Thorn Americas, certain affiliates of Apollo Management IV, L.P. purchased \$250 million, and an affiliate of Bear, Stearns & Co. Inc. purchased \$10 million, of Rent-A-Center's convertible preferred stock. Dividends on the convertible preferred stock are payable quarterly at an annual rate of 3.75% (subject to reduction based on Rent-A-Center's stock price performance) in cash or in-kind at Rent-A-Center's option (subject to restrictions under the senior credit facilities and the notes). The convertible preferred stock is convertible into approximately 26.3% of Rent-A-Center's common stock on a fully diluted basis. See "Description of Capital Stock -- Preferred Stock."

## THE EXCHANGE OFFER

## PURPOSE AND EFFECT OF THE EXCHANGE OFFER

At the time we issued the old notes, we agreed to file a registration statement to register the exchange of the old notes for the exchange notes on or prior to 60 days after August 18, 1998 and to use our reasonable best efforts to cause such registration statement to become effective under the Securities Act within 150 days after the issue date. In the event that applicable interpretations of the staff of the SEC do not permit Rent-A-Center to effect the exchange offer, or if certain holders of the old notes notify Rent-A-Center that they are not eligible to participate in, or would not receive freely tradeable exchange notes in exchange for tendered old notes pursuant to, the exchange offer, Rent-A-Center will use its reasonable best efforts to cause to become effective a shelf registration statement with respect to the resale of the old notes and to keep the shelf registration statement effective until two years after the issue date. If the exchange offer registration statement is not effective on January 15, 1999, Rent-A-Center will be obligated to pay liquidated damages to holders of the old notes. See "Old Notes Exchange and Registration Rights Agreement."

Each holder of the old notes that wishes to exchange old notes for exchange notes will be required to represent that

- - any exchange notes received will be acquired in the ordinary course of its business,
- - it has no arrangement with any person to participate in the distribution of the exchange notes, and
- - it is not an "affiliate," as defined in Rule 405 of the Securities Act, of Rent-A-Center or, if it is an affiliate, that it will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable.

## RESALE OF EXCHANGE NOTES

Based on interpretations by the staff of the SEC set forth in no-action letters issued to third-parties, Rent-A-Center believes that, except as described below, exchange notes issued pursuant to the exchange offer in exchange for old notes may be offered for resale, resold and otherwise transferred by any holder thereof, other than a holder which is an "affiliate" of Rent-A-Center within the meaning of Rule 405 under the Securities Act, without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such exchange notes are acquired in the ordinary course of such holder's business and such holder does not intend to participate and has no arrangement or understanding with any person to participate in the distribution of such exchange notes. Any holder who tenders in the exchange offer with the intention or for the purpose of participating in a distribution of the exchange notes cannot rely on such interpretation by the staff of the SEC and must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction. Unless an exemption from registration is otherwise available, any such resale transaction should be covered by an effective registration statement containing the selling security holder's information required by Item 507 of Regulation S-K under the Securities Act. This prospectus may be used for an offer to resell, resale or other retransfer of exchange notes only as specifically set forth herein. Only broker-dealers who acquired the old notes as a result of market-making activities or other trading activities may

participate in the exchange offer. Each broker-dealer that receives exchange notes for its own account in exchange for old notes, where such old notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. See "Plan of Distribution."

#### TERMS OF THE EXCHANGE OFFER

Upon the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal, Rent-A-Center will accept for exchange any and all old notes properly tendered and not withdrawn prior to 5:00 p.m., New York City time, on February 19, 1999. Rent-A-Center will issue \$1,000 principal amount of exchange notes in exchange for each \$1,000 principal amount of outstanding old notes surrendered pursuant to the exchange offer. Old notes may be tendered only in \$1,000 increments.

The form and terms of the exchange notes will be the same as the form and terms of the old notes except that the exchange notes will be registered under the Securities Act and will not bear legends restricting their transfer. The exchange notes will evidence the same debt as the old notes. The exchange notes will be issued under and entitled to the benefits of the indenture, which also authorized the issuance of the old notes, such that both series will be treated as a single class of debt securities under the indenture. See "Description of the Notes and Guarantees -- General."

The exchange offer is not conditioned upon any minimum aggregate principal amount of old notes being tendered for exchange.

As of the date of this prospectus, \$175.0 million of the old notes are outstanding. This prospectus, together with the letter of transmittal, is being sent to all registered holders of old notes. There will be no fixed record date for determining registered holders of old notes entitled to participate in the exchange offer.

Rent-A-Center intends to conduct the exchange offer in accordance with the provisions of the Exchange and Registration Rights Agreement and the applicable requirements of the Securities Exchange Act of 1934, and the rules and regulations of the SEC thereunder. Old notes that are not tendered for exchange in the exchange offer will remain outstanding and continue to accrue interest and will be entitled to the rights and benefits such holders have under the indenture and the Exchange and Registration Rights Agreement.

Rent-A-Center will be deemed to have accepted for exchange properly tendered notes when, as and if Rent-A-Center shall have given oral or written notice of acceptance to the exchange agent and complied with the provisions of Section 1 of the Exchange and Registration Rights Agreement. The exchange agent will act as agent for the tendering holders for the purposes of receiving the exchange notes from Rent-A-Center. Rent-A-Center expressly reserves the right to amend or terminate the exchange offer, and not to accept for exchange any old notes not accepted for exchange, upon the occurrence of any of the conditions specified below under "-- Certain Conditions to the Exchange Offer."

Holders who tender old notes in the exchange offer will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of old notes pursuant to the exchange offer. Rent-A-Center

will pay all charges and expenses, other than certain applicable taxes described below, in connection with the exchange offer. See "-- Fees and Expenses."

#### EXPIRATION DATE; EXTENSIONS; AMENDMENTS

The expiration date is 5:00 p.m., New York City time on February 19, 1999, unless Rent-A-Center, in its sole discretion, extends the exchange offer, in which case the expiration date will mean the latest date and time to which the exchange offer is extended.

In order to extend the exchange offer, Rent-A-Center will notify the exchange agent of any extension by oral or written notice and will issue a press release notifying the registered holders of old notes of such extension, each prior to 9:00 a.m., New York City time, on the next business day after the expiration date.

Rent-A-Center reserves the right, in its sole discretion,

- - to delay accepting any old notes for exchange, to extend the exchange offer or to terminate the exchange offer if any of the conditions set forth below under "-- Certain Conditions to the Exchange Offer" have not been satisfied, by giving oral or written notice of such delay, extension or termination to the exchange agent, or
- - to amend the terms of the exchange offer in any manner.

Any such delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by oral or written notice thereof to the registered holders of old notes. If the exchange offer is amended in a manner determined by Rent-A-Center to constitute a material change, Rent-A-Center will promptly disclose such amendment by means of a prospectus supplement that will be distributed to the registered holders, and Rent-A-Center will extend the exchange offer, depending upon the significance of the amendment and the manner of disclosure to the registered holders, if the exchange offer would otherwise expire during such period.

Without limiting the manner in which Rent-A-Center may choose to make a public announcement of any delay, extension, amendment or termination of the exchange offer, Rent-A-Center has no obligation to publish, advertise or otherwise communicate any such public announcement, other than by making a timely release to an appropriate news agency.

If Rent-A-Center extends the period of time during which the exchange offer is open, or if Rent-A-Center is delayed in accepting for exchange of, or in issuing and exchanging the exchange notes for, any old notes, or is unable to accept for exchange of, or issue exchange notes for, any old notes pursuant to the exchange offer for any reason, then, without prejudice to Rent-A-Center's rights under the exchange offer, the exchange agent may, on our behalf, retain all old notes tendered, and such old notes may not be withdrawn except as otherwise provided below in "-- Withdrawal of Tenders." The right to delay acceptance for exchange of, or the issuance and the exchange of the exchange notes for, any old notes is subject to applicable law, including Rule 14e-1(c) under the Exchange Act, which requires that Rent-A-Center either deliver the exchange notes or return the old notes deposited by or on behalf of the holders thereof promptly after termination or withdrawal of the exchange offer.

## INTEREST ON THE EXCHANGE NOTES

The exchange notes will bear interest at a rate of 11% per annum, payable semi-annually, on February 15 and August 15 of each year, commencing on February 15, 1999. Holders of exchange notes will receive interest on February 15, 1999 from the date of initial issuance of the exchange notes, plus an amount equal to the accrued interest on the old notes through such date. Interest on the old notes accepted for exchange will cease to accrue upon issuance of the exchange notes.

## CERTAIN CONDITIONS TO THE EXCHANGE OFFER

Notwithstanding any other term of the exchange offer, Rent-A-Center will not be required to accept for exchange, or exchange any exchange notes for, any old notes, and may terminate the exchange offer before the acceptance of any old notes for exchange, if:

- any action or proceeding is instituted or threatened in any court or by or before any governmental agency with respect to the exchange offer which, in Rent-A-Center's reasonable judgment, might materially impair the ability of Rent-A-Center to proceed with the exchange offer; or
- any law, statute, rule or regulation is proposed, adopted or enacted, or any existing law, statute, rule or regulation is interpreted by the staff of the SEC, which, in Rent-A-Center's reasonable judgment, might materially impair the ability of Rent-A-Center to proceed with the exchange offer; or
- any governmental approval has not been obtained, which approval Rent-A-Center shall, in its reasonable discretion, deem necessary for the consummation of the exchange offer as contemplated hereby.

If Rent-A-Center determines in its sole discretion that any of these foregoing conditions are not satisfied, Rent-A-Center may

- refuse to accept any old notes and return all old notes to the tendering holders,
- extend the exchange offer and retain all old notes tendered prior to the expiration of the exchange offer, subject, however, to the rights of holders to withdraw such old notes, or
- waive such unsatisfied conditions with respect to the exchange offer and accept all properly tendered old notes which have not been withdrawn.

If such waiver constitutes a material change to the exchange offer, Rent-A-Center will promptly disclose such waiver by means of a prospectus supplement that will be distributed to the registered holders of the old notes and Rent-A-Center will extend the exchange offer for a period of five to ten business days, depending on the significance of the waiver and the manner of disclosure to the registered holders, if the exchange offer would otherwise expire during such five to ten day business period.

The foregoing conditions are for the sole benefit of Rent-A-Center and may be asserted by Rent-A-Center regardless of the circumstances giving rise to any such condition or may be waived by Rent-A-Center in whole or in part at any time and from time to time in its sole discretion. The failure by Rent-A-Center at any time to exercise any of the foregoing

rights shall not be deemed a waiver of any such right and each such right shall be deemed an ongoing right which may be asserted at any time and from time to time.

In addition, Rent-A-Center will not accept for exchange any old notes tendered, and no exchange notes will be issued in exchange for any such old notes, if at such time any stop order shall be threatened or in effect with respect to the registration statement of which this prospectus constitutes a part or the qualification of the indenture under the Trust Indenture Act of 1939.

#### PROCEDURES FOR TENDERING

Subject to the terms and conditions hereof and the letter of transmittal, only a holder of old notes may tender such old notes in the exchange offer. To tender in the exchange offer, a holder must complete, sign and date the letter of transmittal, or facsimile thereof, have the signature thereon guaranteed if required by the letter of transmittal, and mail or otherwise deliver such letter of transmittal or such facsimile to the exchange agent prior to 5:00 p.m., New York City time, on the expiration date or, in the alternative, comply with the Depository Trust Corporation's Automated Tender Offer Program procedures described below. In addition, either:

- - old notes must be received by the exchange agent along with the letter of transmittal, or
- - a timely confirmation of book-entry transfer, which we call a book-entry confirmation, of such old notes, if such procedure is available, into the exchange agent's account at the Depository Trust Corporation, which we call the Book-Entry Transfer Facility, pursuant to the procedure for book-entry transfer described below or properly transmitted agent's message, as defined below, must be received by the exchange agent prior to the expiration date, or
- - the holder must comply with the guaranteed delivery procedures described below.

To be tendered effectively, the letter of transmittal and other required documents must be received by the exchange agent at the address set forth below under "-- Exchange Agent" prior to 5:00 p.m., New York City time, on the expiration date.

The tender by a holder which is not withdrawn prior to the expiration date will constitute an agreement between such holder and Rent-A-Center in accordance with the terms and subject to the conditions set forth herein and in the letter of transmittal.

The method of delivery of old notes, the letter of transmittal and all other required documents to the exchange agent is at the election and risk of the holder. Instead of delivery by mail, it is recommended that holders use an overnight or hand delivery service. In all cases, sufficient time should be allowed to assure delivery to the exchange agent before the expiration date. No letter of transmittal or old notes should be sent to Rent-A-Center. Holders may request their respective brokers, dealers, commercial banks, trust companies or other nominees to effect the above transactions for such holders.

Any beneficial owner whose old notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and who wishes to tender should contact the registered holder promptly and instruct such registered holder of old notes to tender on such beneficial owner's behalf. If such beneficial owner wishes to tender on such owner's own behalf, such owner must, prior to completing and executing the letter of transmittal and delivering such owner's old notes, either make appropriate arrangements to

register ownership of the old notes in such owner's name or obtain a properly completed bond power from the registered holder of old notes. The transfer of registered ownership may take considerable time and may not be able to be completed prior to the Expiration Date.

Signatures on a letter of transmittal and a notice of withdrawal described below must be guaranteed by an eligible institution, as defined below, unless the old notes are tendered (A) by a registered holder who has not completed the box entitled "Special Issuance Instructions" or "Special Delivery Instructions" on the letter of transmittal, or (B) for the account of an eligible institution. In the event that signatures on a letter of transmittal or a notice of withdrawal are required to be guaranteed, such guarantor must be an eligible institution, which means a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc., a commercial bank or trust company having an office or correspondent in the United States or an "eligible guarantor institution" within the meaning of Rule 17Ad-15 under the Exchange Act which is a member of one of the recognized signature guarantee programs identified in the letter of transmittal.

If the letter of transmittal is signed by a person other than the registered holder of any old notes listed therein, such old notes must be endorsed or accompanied by a properly completed bond power, signed by such registered holder as such registered holder's name appears on such old notes with the signature thereon guaranteed by an eligible institution.

If the letter of transmittal or any old notes or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and unless waived by Rent-A-Center, provide evidence satisfactory to Rent-A-Center of their authority to so act must be submitted with the letter of transmittal.

The exchange agent and the Depository Trust Corporation have confirmed that any financial institution that is a participant in the Depository Trust Corporation's system may utilize the Depository Trust Corporation's Automated Tender Offer Program to tender. Accordingly, participants in the Depository Trust Corporation's Automated Tender Offer Program may, in lieu of physically completing and signing the letter of transmittal and delivering it to the exchange agent, electronically transmit their acceptance of the exchange offer by causing the Depository Trust Corporation to transfer the old notes to the exchange agent in accordance with the Depository Trust Corporation's Automated Tender Offer Program procedures for transfer. The Depository Trust Corporation will then send an agent's message to the exchange agent. The term "agent's message" means a message transmitted by the Depository Trust Corporation received by the exchange agent and forming part of the book-entry confirmation, which states

- - that the Depository Trust Corporation has received an express acknowledgment from a participant in the Depository Trust Corporation's Automated Tender Offer Program that is tendering old notes which are the subject of such book entry confirmation,
- - that such participant has received and agrees to be bound by the terms of the letter of transmittal, or, in the case of an agent's message relating to guaranteed delivery, that such participant has received, and
- - agrees to be bound by the applicable notice of guaranteed delivery, and that the agreement may be enforced against such participant.



All questions as to the validity, form, eligibility, including time of receipt, acceptance of tendered old notes and withdrawal of tendered old notes will be determined by Rent-A-Center in its sole discretion, which determination will be final and binding. Rent-A-Center reserves the absolute right to reject any and all old notes not properly tendered or any old notes Rent-A-Center's acceptance of which would, in the opinion of counsel for Rent-A-Center, be unlawful. Rent-A-Center also reserves the right to waive any defects, irregularities or conditions of tender as to particular old notes. Rent-A-Center's interpretation of the terms and conditions of the exchange offer, including the instructions in the letter of transmittal, will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of old notes must be cured within such time as Rent-A-Center shall determine. Although Rent-A-Center intends to notify holders of defects or irregularities with respect to tenders of old notes, neither Rent-A-Center, the exchange agent nor any other person shall incur any liability for failure to give such notification. Tenders of old notes will not be deemed to have been made until such defects or irregularities have been cured or waived. Any old notes received by the exchange agent that are not properly tendered and as to which the defects or irregularities have not been cured or waived will be returned by the exchange agent to the tendering holder, unless otherwise provided in the letter of transmittal, as soon as practicable following the expiration date.

In all cases, issuance of exchange notes for old notes that are accepted for exchange pursuant to the exchange offer will be made only after timely receipt by the exchange agent of old notes or a timely book-entry confirmation of such old notes into the exchange agent's account at the book-entry transfer facility, a properly completed and duly executed letter of transmittal and all other required documents. If any tendered old notes are not accepted for exchange for any reason set forth in the terms and conditions of the exchange offer or if old notes are submitted for a greater principal amount than the holder desires to exchange, such unaccepted or non-exchanged old notes will be returned without expense to the tendering holder thereof, or, in the case of old notes tendered by book-entry transfer into the exchange agent's account at the book-entry transfer facility pursuant to the book-entry transfer procedures described below, such non-exchanged notes will be credited to an account maintained with such book-entry transfer facility, as promptly as practicable after the expiration or termination of the exchange offer.

#### BOOK-ENTRY TRANSFER

The exchange agent will make a request to establish an account with respect to the old notes at the book-entry transfer facility for purposes of the exchange offer within two business days after the date of this prospectus, and any financial institution that is a participant in the book-entry transfer facility's system may make book-entry delivery of old notes by causing the book-entry transfer facility to transfer such old notes into the exchange agent's account at the book-entry transfer facility in accordance with such book-entry transfer facility's procedures for transfer. However, although delivery of notes may be effected through book-entry transfer at the book-entry transfer facility, the letter of transmittal or facsimile thereof, with any required signature guarantees and any other required documents, must, in any case, be transmitted to and received by the exchange agent at the address set forth below under "-- Exchange Agent" on or prior to the expiration date or, if the guaranteed delivery procedures described below are to be complied with, within the time period provided under such procedures. Delivery of

documents to the book-entry transfer facility does not constitute delivery to the exchange agent.

#### GUARANTEED DELIVERY PROCEDURES

Holders who wish to tender their old notes and (A) whose old notes are not immediately available, or (B) who cannot deliver their old notes, the letter of transmittal or any other required documents to the exchange agent prior to the expiration date, may effect a tender if:

- The tender is made through an eligible institution;
- Prior to the expiration date, the exchange agent receives from such eligible institution a properly completed and duly executed notice of guaranteed delivery by facsimile transmission, mail or hand delivery, setting forth the name and address of the holder, the registered number(s) of such old notes and the principal amount of old notes tendered, stating that the tender is being made thereby and guaranteeing that, within three (3) New York Stock Exchange trading days after the expiration date, the letter of transmittal, or facsimile thereof, together with the old notes or a book-entry confirmation, as the case may be, and any other documents required by the letter of transmittal will be deposited by the eligible institution with the exchange agent; and
- Such properly completed and executed letter of transmittal, or facsimile thereof, or properly transmitted agent's message as well as all tendered old notes in proper form for transfer or a book-entry confirmation, as the case may be, and all other documents required by the letter of transmittal, are received by the exchange agent within three (3) New York Stock Exchange trading days after the expiration date.

Upon request to the exchange agent, a notice of guaranteed delivery will be sent to holders who wish to tender their old notes according to the guaranteed delivery procedures set forth above.

#### WITHDRAWAL OF TENDERS

Except as otherwise provided herein, tenders of old notes may be withdrawn at any time prior to 5:00 p.m., New York City time, on the expiration date.

For a withdrawal to be effective, (A) a written notice of withdrawal must be received by the exchange agent at one of the addresses set forth below under "-- Exchange Agent," or (B) holders must comply with the appropriate procedures of the Depository Trust Company's automated tender offer program system. Any such notice of withdrawal must specify the name of the person having tendered the old notes to be withdrawn, identify the old notes to be withdrawn, including the principal amount of such old notes, and, where certificates for old notes have been transmitted, specify the name in which such old notes were registered, if different from that of the withdrawing holder. If certificates for old notes have been delivered or otherwise identified to the exchange agent, then, prior to the release of such certificates, the withdrawing holder must also submit the serial numbers of the particular certificates to be withdrawn and a signed notice of withdrawal with signatures guaranteed by an eligible institution unless such holder is an eligible institution. If old notes have been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at the

book-entry transfer facility to be credited with the withdrawn old notes and otherwise comply with the procedures of such facility. All questions as to the validity, form and eligibility, including time of receipt, of such notices will be determined by Rent-A-Center, whose determination shall be final and binding on all parties. Any old notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any old notes which have been tendered for exchange but which are not exchanged for any reason will be returned to the holder thereof without cost to such holder, or, in the case of old notes tendered by book-entry transfer into the exchange agent's account at the book-entry transfer facility pursuant to the book-entry transfer procedures described above, such old notes will be credited to an account maintained with such book-entry transfer facility for the old notes, as soon as practicable after withdrawal, rejection of tender or termination of the exchange offer. Properly withdrawn old notes may be retendered by following one of the procedures described under "-- Procedures for Tendering" above at any time on or prior to the expiration date.

#### EXCHANGE AGENT

IBJ Whitehall Bank & Trust Company has been appointed as exchange agent for the exchange offer. Questions and requests for assistance, requests for additional copies of this prospectus or the letter of transmittal and requests for notice of guaranteed delivery should be directed to the exchange agent addressed as follows:

<p>By Registered or Certified Mail:  IBJ Whitehall Bank &amp; Trust Company  P. O. Box 84  Bowling Green Station  New York, New York 10274-0084  Attn: Reorganization Operations  Dept</p>	<p>By Hand or by Overnight Courier:  IBJ Whitehall Bank &amp; Trust Company  One State Street  New York, New York 10004  Attn: Securities Processing  Window,  Subcellar One, (SC-1)</p>
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By Facsimile:

(212) 858-2611

(To confirm facsimile transmissions, call: (212) 858-2103)

#### FEES AND EXPENSES

The expenses of soliciting tenders will be borne by Rent-A-Center. The principal solicitation is being made by mail. However, additional solicitation may be made by telegraph, telephone or in person by officers and regular employees of Rent-A-Center and its affiliates.

Rent-A-Center has not retained any dealer-manager in connection with the exchange offer and will not make any payments to broker-dealers or others soliciting acceptances of the exchange offer. Rent-A-Center, however, will pay the exchange agent reasonable and customary fees for its services and will reimburse it for its reasonable out-of-pocket expenses in connection therewith.

The cash expenses to be incurred in connection with the exchange offer will be paid by Rent-A-Center and are estimated in the aggregate to be approximately \$500,000. Such expenses include registration fees, fees and expenses of the exchange agent and trustee, accounting and legal fees and printing costs, and related fees and expenses.

## TRANSFER TAXES

Rent-A-Center will pay all transfer taxes, if any, applicable to the exchange of the old notes for exchange notes pursuant to the exchange offer. If, however, certificates representing old notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be issued in the name of, any person other than the registered holder of notes tendered, or if tendered notes are registered in the name of any person other than the person signing the letter of transmittal, or if a transfer tax is imposed for any reason other than the exchange of notes pursuant to the exchange offer, then the amount of any such transfer taxes, whether imposed on the registered holder or any other persons, will be payable by the tendering holder. If satisfactory evidence of payment of such taxes or exemption therefrom is not submitted with the letter of transmittal, the amount of such transfer taxes will be billed directly to such tendering holder.

## CONSEQUENCES OF FAILURE TO EXCHANGE

Holders of old notes who do not exchange their old notes for exchange notes pursuant to the exchange offer will continue to be subject to the restrictions on transfer of such old notes, as set forth (A) in the legend thereon as a consequence of the issuance of the old notes pursuant to the exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws, and (B) otherwise set forth in the offering memorandum dated August 13, 1998, distributed in connection with the offering of the old notes. In general, the old notes may not be offered or sold unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Rent-A-Center does not currently anticipate that it will register the old notes under the Securities Act.

UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION  
(DOLLARS IN THOUSANDS)

Our Unaudited Pro Forma Combined Financial Information gives effect to both the offering of the old notes and the acquisitions of Central Rents and Thorn Americas, as if these transactions had occurred on January 1, 1997. The acquisitions of Central Rents and Thorn Americas were completed on May 28, 1998 and August 5, 1998, respectively, and have been reflected within the Rent-A-Center historical balance sheet as of September 30, 1998 and the Rent-A-Center historical statement of operations since their dates of acquisition. The Unaudited Pro Forma Combined Statement of Operations for the year ended December 31, 1997 includes Central Rents historical information for the year ended December 31, 1997, and Thorn Americas historical information for the year ended March 31, 1998, which was its fiscal year end. These transactions and the related adjustments are described in the accompanying notes. In the opinion of management, all adjustments have been made that are necessary to present fairly the pro forma data.

Our Unaudited Pro Forma Combined Financial Information is not indicative of Rent-A-Center's results of operations as of September 30, 1998, nor for any future date, and is not necessarily indicative of what Rent-A-Center's results of operations would have been had both the offering of the old notes and the acquisitions of Central Rents and Thorn Americas occurred on January 1, 1997. Further, it does not give effect to (A) any transactions other than the foregoing transactions and those described in the accompanying Notes to Unaudited Pro Forma Combined Financial Information, or (B) Rent-A-Center's results of operations since September 30, 1998. The following Unaudited Pro Forma Combined Financial Information does not give effect to expected annual pre-tax net savings of \$23.5 million from the elimination of duplicative general and administrative and field expenses as a result of the aforementioned acquisitions, nor does it give effect to additional annual pre-tax net savings of \$9.9 million expected to be achieved resulting from the acquisition of Thorn Americas, relating principally to changes made to its product distribution network and the utilization of its service and repair network.

The following Unaudited Pro Forma Combined Financial Information is based upon the historical financial statements of Rent-A-Center, Central Rents, and Thorn Americas, and should be read in conjunction with such historical financial statements, the related notes, and the Notes to Unaudited Pro Forma Combined Financial Information.

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 1997

	RENT-A-CENTER AND CENTRAL RENTS HISTORICAL(1)	CENTRAL RENTS PRO FORMA ADJUSTMENTS	RENT-A-CENTER AND CENTRAL RENTS PRO FORMA COMBINED	THORN AMERICAS HISTORICAL	THORN AMERICAS PRO FORMA ADJUSTMENTS ----- ELIMINATION NON-RENT- TO-OWN BUSINESSES	ACQUISITION -----
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)						
Revenues						
Store						
Rentals and fees.....	\$373,926	\$ --	\$373,926	\$839,026	\$ (3,779)(2)	\$ (4,202)(3)
Merchandise sales.....	18,972	--	18,972	62,712	(16,395)(2)	--
Other.....	793	--	793	--	--	--
Franchise						
Merchandise sales.....	37,385	--	37,385	--	--	--
Royalty income and fees...	4,008	--	4,008	2,266	--	--
Total revenues.....	435,084	--	435,084	904,004	(20,174)	(4,202)
Operating expenses						
Direct store expenses						
Depreciation of rental merchandise.....	87,630	--	87,630	244,572	--	(4,202)(3)
Cost of merchandise sold.....	14,885	--	14,885	45,574	(14,853)(2)	--
Salaries and other expenses.....	162,458	57,684(4)	220,142	--	--	450,864(3)
Franchise cost of merchandise sold.....	35,841	--	35,841	--	--	--
General and administrative expenses.....	77,559	(57,684)(4)	19,875	513,481	(10,535)(2)	(449,109)(3)
Indemnified litigation expenses.....	--	--	--	6,600	--	(6,600)(5)
Nonrecurring charges(14)....	--	--	--	14,392	(7,792)(2)	--
Amortization of intangibles.....	6,957	939(6)	7,896	24,044	--	(5,127)(6)
Total operating expenses.....	385,330	939	386,269	848,663	(33,180)	(14,174)
Operating profit.....	49,754	(939)	48,815	55,341	13,006	9,972
Interest expense.....	10,043	(752)(7)	9,291	46,184	--	28,263(8)
Interest income and other....	(304)	--	(304)	(88)	--	--
Earnings before income taxes.....	40,015	(187)	39,828	9,245	13,006	(18,291)
Income tax expense.....	17,044	(75)(10)	16,969	7,760	--	353(11)
Net earnings.....	22,971	(112)	22,859	1,485	13,006	(18,644)
Preferred dividends.....	--	--	--	--	--	9,888(13)
Net earnings allocable to common stockholders.....	\$ 22,971	\$ (112)	\$ 22,859	\$ 1,485	\$ 13,006	\$ (28,532)
Basic earnings per share(15):						
Earnings per share.....			\$ 0.96			
Weighted average common shares outstanding.....			23,854			
Diluted earnings per share(15):						
Earnings per share.....			\$ 0.94			
Weighted average common and common equivalent shares outstanding.....			24,204			
Ratio of earnings to fixed charges(16).....			3.4x			

	ACQUISITIONS PRO FORMA	OFFERING ADJUSTMENTS	PRO FORMA COMBINED
Revenues			
Store			
Rentals and fees.....	\$1,204,971	\$ --	\$1,204,971
Merchandise sales.....	65,289	--	65,289

Other.....	793	--	793
Franchise			
Merchandise sales.....	37,385	--	37,385
Royalty income and fees...	6,274	--	6,274
	-----	-----	-----
Total revenues.....	1,314,712	--	1,314,712
Operating expenses			
Direct store expenses			
Depreciation of rental			
merchandise.....	328,000	--	328,000
Cost of merchandise			
sold.....	45,606	--	45,606
Salaries and other			
expenses.....	671,006	--	671,006
Franchise cost of			
merchandise sold.....	35,841	--	35,841
General and administrative			
expenses.....	73,712	--	73,712
Indemnified litigation			
expenses.....	--	--	--
Nonrecurring charges(14)....	6,600	--	6,600
Amortization of			
intangibles.....	26,813	--	26,813
	-----	-----	-----
Total operating			
expenses.....	1,187,578	--	1,187,578
Operating profit.....	127,134	--	127,134
Interest expense.....	83,738	(519)(9)	83,219
Interest income and other.....	(392)	--	(392)
	-----	-----	-----
Earnings before income			
taxes.....	43,788	519	44,307
Income tax expense.....	25,082	208(12)	25,290
	-----	-----	-----
Net earnings.....	18,706	311	19,017
Preferred dividends.....	9,888	--	9,888
	-----	-----	-----
Net earnings allocable			
to common			
stockholders.....	\$ 8,818	\$ 311	\$ 9,129
	=====	=====	=====
Basic earnings per share(15):			
Earnings per share.....	\$ 0.37		\$ 0.38
	=====		=====
Weighted average common			
shares outstanding.....	23,854		23,854
	=====		=====
Diluted earnings per			
share(15):			
Earnings per share.....	\$ 0.36		\$ 0.38
	=====		=====
Weighted average common and			
common equivalent shares			
outstanding.....	24,204		24,204
	=====		=====
Ratio of earnings to fixed			
charges(16).....	1.4x		1.4x
	=====		=====

See accompanying notes to Unaudited Pro Forma Combined Statement of Operations

NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 1997  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

(1) The following historical combined statement of operations of Rent-A-Center and Central Rents for the year ended December 31, 1997 has been derived from the audited financial statements of the respective entities:

	RENT-A-CENTER	CENTRAL RENTS	RENT-A-CENTER AND CENTRAL RENTS HISTORICAL COMBINED
	-----	-----	-----
Revenues			
Store			
Rentals and fees.....	\$275,344	\$ 98,582	\$373,926
Merchandise sales.....	14,125	4,847	18,972
Other.....	679	114	793
Franchise			
Merchandise sales.....	37,385	--	37,385
Royalty income and fees.....	4,008	--	4,008
	-----	-----	-----
Total revenues.....	331,541	103,543	435,084
Operating expenses			
Store expenses			
Depreciation of rental			
merchandise.....	57,223	30,407	87,630
Cost of merchandise sold.....	11,365	3,520	14,885
Salaries and other expenses.....	162,458	--	162,458
Franchise cost of merchandise sold....	35,841	--	35,841
General and administrative expenses....	13,304	64,255	77,559
Amortization of intangibles.....	5,412	1,545	6,957
	-----	-----	-----
Total operating expenses.....	285,603	99,727	385,330
Operating profit.....	45,938	3,816	49,754
Interest expense.....	2,194	7,849	10,043
Interest income.....	(304)	--	(304)
	-----	-----	-----
Earnings (loss) before income			
taxes.....	44,048	(4,033)	40,015
Income tax expense (benefit).....	18,170	(1,126)	17,044
	-----	-----	-----
Net earnings (loss).....	\$ 25,878	\$ (2,907)	\$ 22,971
	=====	=====	=====
Basic earnings per share:			
Earnings per share.....	\$ 1.04		
	=====		
Weighted average common shares			
outstanding.....	24,844		
	=====		
Diluted earnings per share:			
Earnings per share.....	\$ 1.03		
	=====		
Weighted average common shares			
outstanding.....	25,194		
	=====		

(2) Reflects the elimination of Thorn Americas' Non-Rent-to-Own Businesses, including used automobile retailing, credit retailing and check cashing businesses, which had combined total revenues of \$20.2 million. These operations, which are accounted for as separate divisions by Thorn Americas, were exited by Rent-A-Center shortly after



NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 1997 -- (CONTINUED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

the acquisition. The \$10,535 in costs eliminated from general and administrative expenses consists primarily of direct salaries and benefits, advertising and property maintenance costs, and does not include any allocations of general corporate expenses. Nonrecurring charges are discussed in Note (14).

(3)	INCREASE (DECREASE)			
	RENTALS AND FEES REVENUE	STORE EXPENSES DEPRECIATION OF RENTAL MERCHANDISE	SALARIES AND OTHER EXPENSES	GENERAL AND ADMINISTRATIVE EXPENSES
Reclassification of Thorn Americas store expenses to conform with Rent-A-Center's presentation.....	\$ --	\$ --	\$457,807	\$(457,807)
Reclassification of Thorn Americas volume and cash discounts from purchases to conform with Rent-A-Center's presentation.....	(4,202)	(4,202)	--	--
Reclassification of Thorn Americas advertising rebates as a reduction in store expenses to conform with Rent-A-Center's presentation.....	--	--	(5,798)	5,798
Elimination of income related to a rebate of management fees from Thorn plc.....	--	--	--	2,900
Elimination of duplicate corporate overhead and regional management expenses: (a).....	--	--	--	--
Adjustment to depreciation expense(b).....	--	--	(1,145)	--
	===== \$(4,202)	===== \$(4,202)	===== \$450,864	===== \$(449,109)

NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 1997 -- (CONTINUED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

- (a) The following estimated annual net cost savings have not been reflected within the accompanying pro forma statement of operations:

	INCREASE (DECREASE)		TOTAL
	SALARIES AND OTHER EXPENSES	GENERAL AND ADMINISTRATIVE EXPENSES	
Corporate overhead			
Salaries and benefits.....	\$ --	\$(17,400)	
Administrative expenses.....	--	(1,000)	
Regional management expenses.....	(2,500)	--	
	-----	-----	-----
	\$(2,500)	\$(18,400)	\$(20,900)
	=====	=====	=====

These net cost savings are the result of the closing of Thorn Americas corporate headquarters and the related elimination of approximately 550 Thorn Americas headquarter employees. Rent-A-Center has or will hire approximately 100 employees at lower salary levels to handle the additional workload as a result of the Thorn Americas acquisition. Only the net effect of these employee reductions have been considered in the aforementioned estimated annual net cost savings. Rent-A-Center management has taken all actions necessary to achieve these net cost savings and such actions would not have had an effect on Thorn Americas revenues and expenses, except for the net cost savings disclosed, because Rent-A-Center's existing corporate infrastructure has the capacity to absorb most of the necessary home office functions previously performed by Thorn Americas personnel.

In addition to cost savings of \$20.9 million from the acquisition of Thorn Americas and \$2.6 million (see Note (4)) from the acquisition of Central Rents, Rent-A-Center is planning to implement certain other initiatives which are expected to generate an additional \$9.9 million of annual net cost savings. These include making changes to Thorn Americas' product distribution network, and utilizing Thorn Americas' service and repair network, which would result in estimated annual savings of \$22.3 million and \$4.6 million, respectively. In addition, Rent-A-Center is considering other initiatives which should increase Rent-A-Center's store efficiencies and operating profit, but will require initial incremental costs of approximately \$17.0 million. Such incremental costs include higher incentive-based compensation for store management personnel, but will result in increased job responsibilities for store management personnel and eventually fewer store employees on average than Thorn Americas had historically.

- (b) Adjustment to reduce depreciation expense, representing the difference between historical depreciation for property assets acquired in the Thorn Americas acquisition and depreciation computed based on the allocated purchase price of such assets. The adjustment was calculated for transportation equipment, furniture and equipment and leasehold improvements on a straight-line basis over their useful lives of four to six years.

Pro forma depreciation expense.....	\$ 29,004
Less historical depreciation expense.....	(30,149)
	-----
Depreciation expense adjustment.....	\$ (1,145)
	=====

NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
 YEAR ENDED DECEMBER 31, 1997 -- (CONTINUED)  
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

A similar adjustment to reduce depreciation expense for property assets acquired in the Central Rents acquisition based on the allocated purchase price was not recorded since the amount is not material.

The difference between historical depreciation of rental merchandise for Central Rents (straight-line method over approximately 22 months) and Thorn Americas (straight-line method over 18 to 24 months) and rental merchandise depreciation based on allocated purchase price and Rent-A-Center's income forecasting method is also not material; therefore no such adjustment has been included in the accompanying Unaudited Pro Forma Combined Statement of Operations.

Additionally, historical rental merchandise depreciation expense of \$72,897 taken on Thorn Americas' rental merchandise which was sold or disposed prior to the acquisition of Thorn Americas in August 1998 has not been adjusted in these pro forma statements because any difference in depreciation expense would not yield a materially different result.

(4)	INCREASE (DECREASE)	
	STORE EXPENSES SALARIES AND OTHER	GENERAL AND ADMINISTRATIVE EXPENSES
Reclassification of Central Rents other store expenses to conform with Rent-A-Center's presentation.....	\$57,684 =====	\$(57,684) =====

Rent-A-Center anticipates annual net cost savings of \$2.6 million as a result of closing Central Rents' corporate headquarters and the elimination of approximately 60 Central Rents headquarter employees. Rent-A-Center has hired approximately 15 employees at lower salary levels to handle the additional workload as a result of the Central Rents acquisition. Only the net effect of these employee reductions have been considered in the estimated annual net cost savings. Rent-A-Center management has taken all actions necessary to achieve these net cost savings and such actions would not have had an effect on Central Rents revenues and expenses, except for the net cost savings disclosed, because Rent-A-Center's existing corporate infrastructure has the capacity to absorb most of the necessary home office functions previously performed by Central Rents personnel. These net cost savings have not been reflected in the accompanying pro forma statement of operations.

- (5) Elimination of litigation expense relating to Minnesota and Pennsylvania class action litigation indemnified by seller as part of the acquisition of Thorn Americas.
- (6) Reversal of historical intangible amortization and recording the pro forma intangible amortization required as a result of the Central Rents and Thorn Americas

NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 1997 -- (CONTINUED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

acquisitions, using estimated useful lives of 5 years for the noncompete agreements, and 30 years for excess costs over fair market value of net assets acquired:

	CENTRAL RENTS	THORN AMERICAS
	-----	-----
Reversal of historical intangible amortization...	\$(1,545)	\$(24,044)
Pro forma intangible amortization.....	2,484	18,917
	-----	-----
	\$ 939	\$ (5,127)
	=====	=====

(7) Change in interest expense as a result of borrowings on the existing revolving credit agreement used to finance the acquisition of Central Rents:

Borrowings of \$101.4 million at 7% on the existing revolving credit agreement used to finance the acquisition of Central Rents.....	\$ 7,097
Elimination of historical interest expense for Central Rents.....	(7,849)
	-----
	\$ (752)
	=====

(8) Net adjustment to interest expense as a result of the issuance of debt to complete the acquisition of Thorn Americas:

Senior credit facilities:	
\$120 million Term Loan A at an annual interest rate of 7.625%.....	\$ 9,150
\$270 million Term Loan B at an annual interest rate of 7.875%.....	21,263
\$330 million Term Loan C at an annual interest rate of 8.125%.....	26,813
Annual commitment fee of 0.50% applied to the \$120 million unused balance of the Revolving Credit Facility.....	600
Annual 2.50% fee applied to the Letter of Credit Facility.....	3,056
\$175 million Senior Subordinated Facility at an annual interest rate of 11.625%.....	20,344
	-----
Cash interest expense.....	81,226
Amortization of deferred financing costs(a).....	2,366
	-----
Pro forma interest expense for the acquisitions.....	83,591
Interest expense relating to existing Rent-A-Center debt not refinanced.....	147
	-----
Pre-offering pro forma interest expense.....	83,738
Less: Rent-A-Center and Central Rents pro forma combined interest expense plus Thorn Americas historical interest expense.....	(55,475)
	-----
Pre-offering net interest expense adjustment.....	\$ 28,263
	=====

(a) Deferred financing costs are amortized over the term of the related debt (ten years for the Senior Subordinated Facility, six years for the Term Loan A, seven and one-half years for Term Loan B, eight and one-half years for Term Loan C, and six years for both the Revolving Credit and Letter of Credit Facilities).

A change of 0.125% in the annual interest rates would result in a \$1.1 million change in pro forma interest expense for the year.

NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 1997 -- (CONTINUED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

(9) Net adjustments to interest expense as a result of the Offering:

Issuance of Senior Subordinated Notes due 2008 -- \$175 million at 11.0%.....	\$ 19,250
Amortization of related deferred financing costs.....	575
Repayment of Senior Subordinated Facility -- \$175 million at 11.625%.....	(20,344)
	-----
	\$ (519)
	=====

- (10) Income tax expense adjustment related to the effects of the Central Rents pro forma adjustments at a 40% effective tax rate.
- (11) Income tax expense adjustment related to the effects of the pro forma adjustments based upon an assumed composite income tax rate of 40% applied to combined pro forma earnings before income taxes, adjusted for nondeductible goodwill amortization of \$18.9 million related to the acquisition of Thorn Americas.
- (12) Income tax expense adjustment related to the effects of the Offering adjustments, at a 40% effective tax rate.
- (13) In-kind dividends at 3.75% per annum on the \$260 million of redeemable convertible preferred stock issued to finance a portion of the acquisition of Thorn Americas. For the first five years subsequent to issuance, Rent-A-Center has the option to pay the quarterly dividends in cash or in-kind with the issuance of additional redeemable convertible preferred stock. Rent-A-Center's ability to pay the dividends in cash will be subject to restrictions under the Senior Credit Facilities and Senior Subordinated Notes. Dividends reflected herein are assumed to be paid in-kind with the issuance of additional redeemable convertible preferred stock.
- (14) Nonrecurring charges relate to Thorn Americas' discontinued Non-Rent-to-Own Businesses, the closing of certain non-performing rent-to-own stores, and reorganization of certain administrative support functions aggregating approximately \$12.3 million, and approximately \$2.1 million related primarily to Thorn Americas' writedown of cellular phone inventory.
- (15) Weighted average common shares outstanding for both basic and diluted earnings per share were decreased by 990,099 to give pro forma effect of the repurchase of \$25 million of Rent-A-Center common stock at \$25.25 per share from Rent-A-Center's Chief Executive Officer on August 18, 1998. The quoted market price of Rent-A-Center common stock at the close of business on August 17, 1998 was \$25.25. The assumed conversion of the redeemable convertible preferred stock would have had an anti-dilutive effect on diluted earnings per share for the year ended December 31, 1997, and therefore has been excluded from the computation thereof.
- (16) In calculating the ratio of earnings to fixed charges, earnings consist of earnings before income taxes plus fixed charges (excluding capitalized interest). Fixed charges consist of interest expense (which includes amortization of deferred financing costs) whether expensed or capitalized and one-fourth of rental expense, deemed representative of that portion of rental expense estimated to be attributable to interest.

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
NINE MONTHS ENDED SEPTEMBER 30, 1998

	RENT-A-CENTER AND CENTRAL RENTS HISTORICAL COMBINED(1)	CENTRAL RENTS PRO FORMA ADJUSTMENTS	RENT-A-CENTER AND CENTRAL RENTS PRO FORMA COMBINED	THORN AMERICAS HISTORICAL PRE-ACQUISITION(17)
-----				
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
Revenues				
Store				
Rentals and fees.....	\$439,486	\$ --	\$439,486	\$505,246
Merchandise sales.....	26,583	--	26,583	42,981
Other.....	2,094	--	2,094	--
Franchise				
Merchandise sales.....	28,440	--	28,440	--
Royalty income and fees.....	3,777	--	3,777	1,372
-----				
Total revenues.....	500,380	--	500,380	549,599
Operating expenses				
Direct store expenses				
Depreciation of rental merchandise.....	102,804	--	102,804	146,712
Cost of merchandise sold.....	18,574	--	18,574	33,731
Salaries and other expenses.....	238,577	24,514(4)	263,091	--
Franchise cost of merchandise sold....	27,318	--	27,318	--
General and administrative expenses....	45,899	(24,514)(4)	21,385	316,845
Indemnified litigation expenses.....	--	--	--	5,600
Nonrecurring charges(14).....	--	--	--	10,877
Amortization of intangibles.....	7,874	947(6)	8,821	13,780
-----				
Total operating expenses.....	441,046	947	441,993	527,545
Operating profit.....	59,334	(947)	58,387	22,054
Interest expense.....	31,608	(5,221)(7)	26,387	30,349
Interest income.....	(1,932)	--	(1,932)	--
-----				
Earnings before income taxes.....	29,658	4,274	33,932	(8,295)
Income tax expense.....	13,914	1,710(10)	15,624	2,238
-----				
Net earnings.....	15,744	2,564	18,308	(10,533)
Preferred dividends.....	1,496	--	1,496	--
-----				
Net earnings allocable to common stockholders.....	\$ 14,248	\$ 2,564	\$ 16,812	\$(10,533)
=====				
Basic earnings per share(15):				
Earnings per share.....			\$ 0.70	
=====				
Weighted average common shares outstanding.....			23,920	
=====				
Diluted earnings per share(15):				
Earnings per share.....			\$ 0.70	
=====				
Weighted average common and common equivalent shares outstanding.....			24,152	
=====				
Ratio of earnings to fixed charges(16).....			2.1x	
=====				

THORN AMERICAS PRO FORMA  
ADJUSTMENTS

	ELIMINATION OF NON- RENT-TO-OWN BUSINESSES	ACQUISITION	ACQUISITIONS PRO FORMA	OFFERING ADJUSTMENTS	COMBINED PRO FORMA
-----					
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)					
Revenues					
Store					
Rentals and fees.....	\$ (4,725)(2)	\$ (1,631)(3)	\$ 938,376	\$ --	\$ 938,376
Merchandise sales.....	(16,042)(2)	--	53,522	--	53,522

Other.....	--	--	2,094	--	2,094
Franchise					
Merchandise sales.....	--	--	28,440	--	28,440
Royalty income and fees.....	--	--	5,149	--	5,149
	-----	-----	-----	-----	-----
Total revenues.....	(20,767)	(1,631)	1,027,581	--	1,027,581
Operating expenses					
Direct store expenses					
Depreciation of rental					
merchandise.....	--	(1,631)(3)	247,885	--	247,885
Cost of merchandise sold.....	(15,986)(2)	--	36,319	--	36,319
Salaries and other expenses.....	--	270,281(3)	533,372	--	533,372
Franchise cost of merchandise sold....	--	--	27,318	--	27,318
General and administrative expenses....	(8,165)(2)	(268,240)(3)	61,825	--	61,825
Indemnified litigation expenses.....	--	(5,600)(5)	--	--	--
Nonrecurring charges(14).....	(5,277)(2)	--	5,600	--	5,600
Amortization of intangibles.....	--	(2,080)(6)	20,521	--	20,521
	-----	-----	-----	-----	-----
Total operating expenses.....	(29,428)	(7,270)	932,840	--	932,840
Operating profit.....	8,661	5,639	94,741	--	94,741
Interest expense.....	--	11,084(8)	67,820	(389)(9)	67,431
Interest income.....	--	--	(1,932)	--	(1,932)
	-----	-----	-----	-----	-----
Earnings before income taxes.....	8,661	(5,445)	28,853	389	29,242
Income tax expense.....	--	(646)(11)	17,216	156(12)	17,372
	-----	-----	-----	-----	-----
Net earnings.....	8,661	(4,799)	11,637	233	11,870
Preferred dividends.....	--	6,166(13)	7,662	--	7,662
	-----	-----	-----	-----	-----
Net earnings allocable to common					
stockholders.....	\$ 8,661	\$ (10,965)	\$ 3,975	\$ 233	\$ 4,208
	=====	=====	=====	=====	=====
Basic earnings per share(15):					
Earnings per share.....			\$ 0.17		\$ 0.18
			=====		=====
Weighted average common shares					
outstanding.....			23,920		23,920
			=====		=====
Diluted earnings per share(15):					
Earnings per share.....			\$ 0.16		\$ 0.17
			=====		=====
Weighted average common and common					
equivalent shares outstanding.....			24,152		24,152
			=====		=====
Ratio of earnings to fixed					
charges(16).....			1.4x		1.4x
			=====		=====

See accompanying notes to Unaudited Pro Forma combined Statement of Operations

NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
NINE MONTHS ENDED SEPTEMBER 30, 1998  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

(1) The following historical combined statement of operations of Rent-A-Center and Central Rents for the nine months ended September 30, 1998 has been derived from the unaudited financial statements of the respective entities:

	RENT-A-CENTER(a)	PLUS CENTRAL RENTS PRE ACQUISITION(b)	RENT-A-CENTER AND CENTRAL RENTS HISTORICAL COMBINED
	-----	-----	-----
Revenues			
Store			
Rentals and fees.....	\$400,793	\$38,693	\$439,486
Merchandise sales.....	24,329	2,254	26,583
Other.....	2,094	--	2,094
Franchise			
Merchandise sales.....	28,440	--	28,440
Royalty income and fees.....	3,777	--	3,777
Total revenues.....	----- 459,433	----- 40,947	----- 500,380
Operating expenses			
Direct store expenses			
Depreciation of rental merchandise.....	91,382	11,422	102,804
Cost of merchandise sold.....	16,600	1,974	18,574
Salaries and other expenses.....	238,577	--	238,577
Franchise cost of merchandise sold.....	27,318	--	27,318
General and administrative expenses.....	18,054	27,845	45,899
Amortization of intangibles.....	7,767	107	7,874
Total operating expenses.....	----- 399,698	----- 41,348	----- 441,046
Operating profit.....	59,735	(401)	59,334
Interest expense.....	23,486	8,122	31,608
Interest income.....	(1,932)	--	(1,932)
Earnings before income taxes.....	----- 38,181	----- (8,523)	----- 29,658
Income tax expense (benefit).....	17,153	(3,239)	13,914
Net earnings.....	----- 21,028	----- (5,284)	----- 15,744
Preferred dividends.....	1,496	--	1,496
Earnings allocable to common stockholders.....	----- \$ 19,532	----- \$(5,284)	----- \$ 14,248
Basic earnings per share:			
Earnings per share.....	\$ 0.79		
Weighted average common shares outstanding.....	----- 24,910		
Diluted earnings per share:			
Earnings per share.....	\$ 0.78		
Weighted average common shares outstanding.....	----- 27,034		



NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENT  
OF OPERATIONS -- (CONTINUED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

(a) The Rent-A-Center information above has been taken from its Form 10-Q for the nine months ended September 30, 1998. Included within this information is the operations of Thorn Americas for the period (August 5, 1998 through September 30, 1998) following the acquisition by Rent-A-Center.

(b) The Central Rents information above reflects their operations for the period (January 1, 1998 through May 28, 1998) prior to the acquisition by Rent-A-Center.

(2) Reflects the elimination of Thorn Americas' Non-Rent-to-Own Businesses, including used automobiles retailing, credit retailing and check cashing businesses, which had combined total revenues of \$20.8 million. These operations, which are accounted for as separate divisions by Thorn Americas, were exited by Rent-A-Center shortly after the acquisition. The \$8,165 in costs eliminated from general and administrative expenses consists primarily of direct salaries and benefits, advertising and property maintenance costs, and does not include any allocated general corporate expenses. Nonrecurring charges are discussed in Note (14).

	INCREASE (DECREASE)			
	RENTALS AND FEES REVENUE	STORE EXPENSES DEPRECIATION OF RENTAL MERCHANDISE	SALARIES AND OTHER EXPENSES	GENERAL AND ADMINISTRATIVE EXPENSES
Reclassification of Thorn Americas store expenses to conform with Rent-A-Center's presentation.....	\$ --	\$ --	\$275,991	\$(275,991)
Reclassification of Thorn Americas volume and cash discounts from purchases to conform with Rent-A-Center's presentation.....	(1,631)	(1,631)	--	--
Reclassification of Thorn Americas advertising rebates as a reduction in store expenses to conform with Rent-A-Center's presentation.....	--	--	(4,851)	4,851
Elimination of income related to a rebate of management fees from Thorn plc.....	--	--	--	2,900
Elimination of duplicate corporate overhead and regional management expenses:(a).....	--	--	--	--
Adjustment to depreciation expense(b):.....	--	--	(859)	--
	\$(1,631)	\$(1,631)	\$270,281	\$(268,240)

NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENT  
OF OPERATIONS -- (CONTINUED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

- (a) The following estimated net cost savings have not been reflected within the accompanying pro forma statement of operations:

	INCREASE (DECREASE)		
	SALARIES AND OTHER EXPENSES	GENERAL AND ADMINISTRATIVE EXPENSES	TOTAL
Elimination of duplicate corporate overhead and regional management expenses:			
Corporate overhead			
Salaries and benefits.....	\$ --	\$(10,150)	
Administrative expenses.....	--	(583)	
Regional management expenses.....	(1,458)	--	
	\$(1,458)	\$(10,733)	\$(12,191)
	=====	=====	=====

These net cost savings represent approximately seven months of the estimated annual cost savings relating to the acquisition of Thorn Americas, which reflect the approximate period that Rent-A-Center historical operations are included within the accompanying Unaudited Pro Forma Combined Statement of Operations. See note (3)(a) on page 40 for an expanded discussion of the nature of these cost savings.

- (b) Adjustment to reduce depreciation expense, representing the difference between historical depreciation for property assets acquired in the Thorn Americas acquisition and depreciation computed based on the allocated purchase price of such assets. The adjustment was calculated for transportation equipment, furniture and equipment, and leasehold improvements on a straight-line basis over their useful lives of four to six years.

Pro forma depreciation expense.....	\$ 17,720
Less historical depreciation expense.....	(18,579)
	-----
Depreciation expense adjustment.....	\$ (859)
	=====

A similar adjustment to reduce depreciation expense for property assets acquired in the Central Rents acquisition based on the allocated purchase price was not recorded since the amount is not material.

The difference between historical depreciation of rental merchandise for Central Rents (straight-line method over approximately 22 months) and Thorn Americas (straight-line method over 18 to 24 months) and rental merchandise depreciation based on allocated purchase price and Rent-A-Center's income forecasting method is also not material; therefore, no such adjustment has been

NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENT  
OF OPERATIONS -- (CONTINUED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

included in the accompanying Unaudited Pro Forma Combined Statement of Operations.

Additionally, historical rental merchandise depreciation expense of \$24,811 taken on Thorn Americas' rental merchandise which was sold or disposed prior to the acquisition of Thorn Americas in August 1998 has not been adjusted in these pro forma statements because any difference in depreciation expense would not yield a materially different result.

	INCREASE (DECREASE)	
(4)	STORE EXPENSES SALARIES AND OTHER	GENERAL AND ADMINISTRATIVE EXPENSES
Reclassification of Central Rents' other store expenses to conform with Rent-A-Center's presentation.....	\$24,514 =====	\$(24,514) =====

Rent-A-Center anticipates annual net cost savings of \$2.6 million as a result of closing Central Rents' corporate headquarters. See note(4) on page 41 for an expanded discussion of the nature of these cost savings. The related net cost savings of \$1.1 million for the nine months ended September 30, 1998 are not reflected in the pro forma statement of operations.

- (5) Elimination of litigation expense relating to Minnesota and Pennsylvania class action litigation indemnified by seller as part of the acquisition of Thorn Americas.
- (6) Reversal of historical intangible amortization and recording of the pro forma intangible amortization required as a result of the acquisition of Central Rents and the acquisition of Thorn Americas, using estimated useful lives of 5 years for the noncompete agreements, and 30 years for excess costs over fair market value of net assets acquired:

	CENTRAL RENTS	THORN AMERICAS
Reversal of historical intangible amortization recorded by respective entities.....	\$ (107)	\$(13,780)
Reversal of historical intangible amortization relating to the acquisition of Central Rents and Thorn Americas recorded by Rent-A-Center from the acquisition date through September 30, 1998.....	(809)	(2,488)
Pro forma intangible amortization for nine months....	1,863	14,188
	\$ 947	\$ (2,080)

NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENT  
OF OPERATIONS -- (CONTINUED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

(7) Change in interest expense for nine months as a result of borrowings on the existing revolving credit agreement used to finance the acquisition of Central Rents:	
	\$ 5,324
Borrowings of \$101.4 million at 7%, for nine months, on the existing revolving credit agreement used to finance the acquisition of Central Rents.....	(8,122)
Elimination of historical interest expense for Central Rents prior to the acquisition by Rent-A-Center.....	(2,423)
Elimination of historical interest expense recorded by Rent-A-Center from the acquisition date through September 30, 1998, relating to the acquisition of Central Rents....	----- \$(5,221) =====

(8) Net adjustment to interest expense for nine months as a result of the issuance of debt to complete the acquisition of Thorn Americas:

Senior credit facilities:	
\$120 million Term Loan A at an annual interest rate of 7.625%.....	\$ 6,863
\$270 million Term Loan B at an annual interest rate of 7.875%.....	15,947
\$330 million Term Loan C at an annual interest rate of 8.125%.....	20,109
Annual commitment fee of 0.50% applied to the \$120 million unused balance of the Revolving Credit Facility.....	450
Annual 2.50% fee applied to the Letter of Credit Facility.....	2,292
\$175 million Senior Subordinated Facility at an annual interest rate of 11.625%.....	15,258
Cash interest expense.....	60,919
Amortization of deferred financing costs(a).....	6,792
Pro forma interest expense for the acquisitions.....	67,711
Interest expense relating to existing Rent-A-Center debt not refinanced.....	109
Pre-offering pro forma interest expense.....	67,820
Less: Rent-A-Center and Central Rents pro forma combined interest expense plus Thorn Americas historical interest expense.....	(56,736)
Pre-offering net interest expense adjustment.....	\$ 11,084 =====

(a) Deferred financing costs are amortized over the term of the related debt (ten years for the Senior Subordinated Facility, six years for the Term Loan A, seven and one-half years for Term Loan B, eight and one-half years for Term Loan C, and six years for both the Revolving Credit and Letter of Credit Facilities). Includes \$5,017 of financing costs expensed in Rent-A-Center's third quarter

NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENT  
OF OPERATIONS -- (CONTINUED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

relating to interim financing utilized in the acquisition of Thorn Americas until permanent financing was obtained.

A change of 0.125% in annual interest rates would result in a \$.8 million change in pro forma interest expense for the nine months ended September 30, 1998.

- (9) Net adjustments to interest expense for nine months as a result of the Offering:

Issuance of Senior Subordinated Notes due 2008 -- \$175 million at 11.0%.....	\$ 14,437
Amortization of related deferred financing costs.....	432
Repayment of Senior Subordinated Facility -- \$175 million at 11.625%.....	(15,258)
	-----
	\$ (389)
	=====

- (10) Income tax expense adjustment related to the effects of the Central Rents pro forma adjustments at a 40% effective tax rate.
- (11) Income tax expense adjustment related to the effects of the pro forma adjustments based upon an assumed composite income tax rate of 40% applied to combined pro forma earnings before income taxes, adjusted for nondeductible goodwill amortization of \$14.2 million related to the acquisition of Thorn Americas.
- (12) Income tax expense adjustment related to the effects of the Offering adjustments, at a 40% effective tax rate.
- (13) Nine months of in-kind dividends at 3.75% per annum on the \$260 million of redeemable convertible preferred stock issued to finance a portion of the acquisition of Thorn Americas. For the first five years subsequent to issuance, Rent-A-Center has the option to pay the quarterly dividends in cash or in-kind with the issuance of additional redeemable convertible preferred stock. Rent-A-Center's ability to pay the dividends in cash will be subject to restrictions under the Senior Credit Facilities and Senior Subordinated Notes. Dividends reflected herein are assumed to be paid in-kind with the issuance of additional redeemable convertible preferred stock.

Pro forma in-kind dividends for nine months ended September 30, 1998.....	\$ 7,662
Less: historical preferred dividends recorded by Rent-A-Center post acquisition.....	(1,496)
	-----
Pro forma preferred dividend adjustment.....	\$ 6,166
	=====

- (14) Nonrecurring charges relate to Thorn Americas' discontinued Non-Rent-to-Own businesses, the closing of certain non-performing Rent-to-Own stores, and reorganization of certain administrative support functions aggregating approximately \$9.8 million and approximately \$1.1 million related primarily to Thorn Americas' writedown of cellular phone inventory.

NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENT  
OF OPERATIONS -- (CONTINUED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

- (15) Weighted average common shares outstanding for both basic and diluted earnings per share were decreased by 990,099 to give pro forma effect of the repurchase of \$25 million of Rent-A-Center common stock at \$25.25 per share from Rent-A-Center's Chief Executive Officer on August 18, 1998. The quoted market price of Rent-A-Center common stock at the close of business on August 17, 1998 was \$25.25. The assumed conversion of the redeemable convertible preferred stock would have had an anti-dilutive effect on diluted earnings per share for the nine months ended September 30, 1998, on a pro forma basis, and therefore has been excluded from the calculation thereof.
- (16) In calculating the ratio of earnings to fixed charges, earnings consist of earnings before income taxes plus fixed charges (excluding capitalized interest). Fixed charges consist of interest expense (which includes amortization of deferred financing costs) whether expensed or capitalized and one-fourth of rental expense, deemed representative of that portion of rental expense estimated to be attributable to interest.
- (17) The Thorn Americas pre-acquisition information reflects their operations for the period from January 1, 1998 to August 4, 1998. This information was derived from Thorn Americas' internal financial statements. In order to prepare a statement of operations for the aforementioned period, the results for the quarter ended March 31, 1998 were combined with the results for the period from April 1, 1998 to August 4, 1998.

## RENT-A-CENTER

## SELECTED HISTORICAL FINANCIAL DATA

The selected historical financial data for Rent-A-Center as of and for each of the five years in the period ended December 31, 1997, have been derived from Rent-A-Center's consolidated financial statements which have been audited and reported upon by Grant Thornton LLP. The selected historical financial data for Rent-A-Center as of and for the nine months ended September 30, 1997 and 1998 have been derived from Rent-A-Center's unaudited consolidated financial statements which were prepared on the same basis as Rent-A-Center's audited financial statements and include, in the opinion of Rent-A-Center's management, all adjustments necessary to present fairly the information presented for such interim periods. This information should be read in conjunction with Rent-A-Center's audited consolidated financial statements and notes thereto included herein, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and other financial information included elsewhere in this prospectus. Because of the significant growth of Rent-A-Center from acquisitions, the historical results of operations, its period-to-period comparisons of such results and certain financial data may not be comparable, meaningful or indicative of future results.

	YEARS ENDED DECEMBER 31,					NINE MONTHS ENDED SEPTEMBER 30,	
	1993(1)	1994(1)	1995	1996	1997	1997	1998
	(DOLLARS IN THOUSANDS)						
<b>STATEMENTS OF EARNINGS DATA:</b>							
Total revenue.....	\$53,212	\$74,385	\$133,289	\$237,965	\$331,541	\$239,253	\$ 459,433
Direct store expenses							
Depreciation of rental merchandise.....	11,626	15,614	29,640	42,978	57,223	42,271	91,382
Other store expenses.....	29,576	40,701	74,966	124,934	173,823	127,694	255,177
	41,202	56,315	104,606	167,912	231,046	169,965	346,559
Franchise operating expense(2).....	--	--	--	24,010	35,841	22,929	27,318
General and administrative expenses.....	2,151	2,809	5,766	10,111	13,304	9,597	18,054
Amortization of intangibles....	5,304	6,022	3,109	4,891	5,412	4,016	7,767
	48,657	65,146	113,481	206,924	285,603	206,507	399,698
Total operating expenses.....							
Operating profit.....	4,555	9,239	19,808	31,041	45,938	32,746	59,735
Interest expense.....	1,817	2,160	2,202	606	2,194	1,402	18,469
Nonrecurring financing costs(8).....	--	--	--	--	--	--	5,017
Interest income.....	--	--	(890)	(667)	(304)	(256)	(1,932)
Earnings before income taxes.....	2,738	7,079	18,496	31,102	44,048	31,600	38,181
Income tax expense.....	937	1,600	7,784	13,076	18,170	13,108	17,153
	1,801	5,479	10,712	18,026	25,878	18,492	21,028
Net earnings.....	--	--	--	--	--	--	1,496
Preferred dividends.....							
	\$ 1,801	\$ 5,479	\$ 10,712	\$ 18,026	\$ 25,878	\$ 18,492	\$ 19,532
			=====	=====	=====	=====	=====
Basic earnings per share.....			\$ .52	\$ .73	\$ 1.04	\$ .74	\$ .79
			=====	=====	=====	=====	=====
Diluted earnings per share.....			\$ .52	\$ .72	\$ 1.03	\$ .74	\$ .78
			=====	=====	=====	=====	=====

## RENT-A-CENTER

## SELECTED HISTORICAL FINANCIAL DATA -- (CONTINUED)

	YEARS ENDED DECEMBER 31,					NINE MONTHS ENDED SEPTEMBER 30,	
	1993(1)	1994(1)	1995	1996	1997	1997	1998
	(DOLLARS IN THOUSANDS)						
OTHER FINANCIAL DATA:							
Depreciation and amortization(3).....	\$ 6,164	\$ 7,207	\$ 5,239	\$ 8,571	\$ 11,013	\$ 8,002	\$ 18,306
Capital expenditures(4).....	1,489	1,715	3,473	8,187	10,446	7,636	9,732
Ratio of earnings to fixed charges(5).....	2.1x	3.2x	5.1x	7.9x	6.7x	7.8x	2.7x
BALANCE SHEET DATA (END OF PERIOD):							
Cash and cash equivalents.....	\$ 1,359	\$ 1,441	\$ 35,321	\$ 5,920	\$ 4,744	\$ 6,280	\$ 90,483
Rental merchandise, net.....	20,672	28,096	64,240	95,110	112,759	109,696	481,981
Total assets.....	34,813	36,959	147,294	174,467	208,868	206,385	1,646,813
Total debt.....	27,592	23,383	40,850	18,993	27,172	33,652	892,912
Total stockholders' equity.....	4,168	9,286	96,484	125,503	152,753	144,742	148,879
OPERATING DATA:							
Number of stores (end of period).....	112	114	325	423	504	503	2,125
Average annual revenue per store(6).....	\$ 591	\$ 653	\$ 626	\$ 608	\$ 610	\$ 611	\$ 600
Comparable store revenue growth(7).....	11.1%	10.8%	18.1%	3.8%	8.1%	9.0%	8.7%
Revenues:							
Store revenue							
Rentals and fees.....	\$51,162	\$70,590	\$126,264	\$198,486	\$275,344	\$200,970	\$ 400,793
Merchandise sales.....	1,678	3,470	6,383	10,604	14,125	10,774	24,329
Other.....	372	325	642	687	679	525	2,094
Franchise revenue							
Merchandise sales.....	--	--	--	25,229	37,385	23,971	28,440
Royalty income and fees....	--	--	--	2,959	4,008	3,013	3,777
Total revenue.....	\$53,212	\$74,385	\$133,289	\$237,965	\$331,541	\$239,253	\$ 459,433



## NOTES TO SELECTED HISTORICAL FINANCIAL DATA OF RENT-A-CENTER

- (1) In each of the periods presented ending prior to January 1, 1995, we operated as an S corporation under Subchapter S of the Internal Revenue Code and comparable provisions of certain state tax laws. Accordingly, prior to January 1, 1995, we were not subject to federal income taxation. Earnings per share are not provided for periods prior to January 1, 1995, because operating results for those periods are not comparable.
- (2) Prior to our acquisition of ColorTyme in May 1996, we conducted no franchise operations. Therefore, we presented franchise operation financial information for periods beginning with the year ended December 31, 1996.
- (3) This amount excludes depreciation of rental merchandise.
- (4) We exclude purchase of rental merchandise.
- (5) In calculating the ratio of earnings to fixed charges, earnings consist of income before income taxes plus fixed charges (excluding capitalized interest). Fixed charges consist of interest expense (which includes amortization of deferred financing costs) whether expensed or capitalized and one-fourth of rental expense, which we deem representative of that portion of rental expense estimated to be attributable to interest.
- (6) We annualized the revenues for the nine months ended September 30, 1997 and 1998.
- (7) Comparable store revenue growth for each period presented includes revenues only of stores open throughout the full period and the comparable prior period.
- (8) Nonrecurring finance charges for the nine months ended September 30, 1998, relate principally to interim financing utilized in the acquisition of Thorn Americas until permanent financing was obtained. These finance charges include an availability fee of 1.25% and a utilization fee of 1.5% that were levied upon a \$175 million bridge loan that was utilized for approximately two weeks before being repaid.

## THORN AMERICAS

## SELECTED HISTORICAL FINANCIAL DATA

The selected historical financial data for Thorn Americas as of and for each of the three years in the period ended March 31, 1998, have been derived from Thorn Americas' audited consolidated financial statements. The selected historical financial data for Thorn Americas as of and for the three months ended June 30, 1997 and 1998 have been derived from Thorn Americas' unaudited consolidated financial statements which were prepared on the same basis as Thorn Americas' audited financial statements and include, in the opinion of Thorn Americas' management, all adjustments necessary to present fairly the information presented for such interim periods. This information should be read in conjunction with the consolidated financial statements of Thorn Americas and notes thereto included herein, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the other financial information included elsewhere in this prospectus.

	YEARS ENDED MARCH 31,			THREE MONTHS ENDED JUNE 30,	
	1996	1997	1998	1997	1998
(DOLLARS IN THOUSANDS)					
STATEMENTS OF OPERATIONS					
DATA:(1)					
Total revenue.....	\$ 897,927	\$ 926,871	\$ 904,004	\$ 225,641	\$ 235,421
Cost of sales.....	43,345	39,793	45,574	8,524	12,503
Depreciation and amortization					
Rental merchandise.....	257,383	260,433	244,572	62,852	62,886
Other.....	52,236	59,085	56,869	14,598	14,532
Salaries, wages and fringe benefits.....	255,768	272,242	279,796	68,488	72,960
Other operating expenses.....	202,577	233,015	207,460	50,654	68,903
Nonrecurring charges(2).....	12,600	--	14,392	--	--
Total operating expenses.....	823,909	864,568	848,663	205,116	231,784
Operating profit.....	74,018	62,303	55,341	20,525	3,637
Interest expense, net.....	80,207	52,651	46,184	10,825	11,191
Other (income) expense.....	101	(254)	(88)	(81)	72
Earnings (loss) before income taxes.....	(6,290)	9,906	9,245	9,781	(7,626)
Income tax expense (benefit)...	6,771	13,880	7,760	5,950	(1,156)
Net earnings (loss).....	\$ (13,061)	\$ (3,974)	\$ 1,485	\$ 3,831	\$ (6,470)
RENT-TO-OWN FINANCIAL DATA:(3)					
Depreciation and amortization(4).....	\$ 52,236	\$ 59,085	\$ 56,464	\$ 14,541	\$ 14,387
Capital expenditures(5).....	44,642	29,906	33,187	5,630	15,454

## SELECTED HISTORICAL FINANCIAL DATA -- (CONTINUED)

	YEARS ENDED MARCH 31,			THREE MONTHS ENDED JUNE 30,	
	1996	1997	1998	1997	1998
	(DOLLARS IN THOUSANDS)				
BALANCE SHEET DATA (END OF PERIOD):					
Cash and cash equivalents.....	\$ 19,225	\$ 26,077	\$ 23,755	\$ 37,399	\$ 27,486
Rental merchandise, net.....	304,164	276,012	292,965	268,564	303,682
Total assets.....	1,242,211	1,108,280	1,079,109	1,086,784	1,092,296
Total debt.....	1,042,729	714,235	714,223	714,827	714,663
Total stockholder's equity.....	88,529	239,026	236,483	242,857	230,013
RENT-TO-OWN OPERATING DATA:					
Number of stores (end of period).....	1,306	1,367	1,384	1,392	1,404
Average annual revenue per store(6).....	\$ 744	\$ 694	\$ 639	\$ 648	\$ 653
Revenues:					
Store revenue					
Rentals and fees.....	\$ 827,935	\$ 864,256	\$ 831,025	\$ 212,256	\$ 217,616
Merchandise sales.....	64,628	60,249	46,337	10,636	9,296
Franchise royalty income.....	5,364	2,366	2,266	582	560
Total rent-to-own revenue.....	\$ 897,927	\$ 926,871	\$ 879,628	\$ 223,474	\$ 227,472
Non-Rent-to-Own revenue.....	--	--	24,376	2,167	7,949
Total Revenue.....	\$ 897,927	\$ 926,871	\$ 904,004	\$ 225,641	\$ 235,421

## NOTES TO SELECTED HISTORICAL FINANCIAL DATA OF THORN AMERICAS

- (1) As part of the acquisition of Thorn Americas, we acquired several Non-Rent-to-Own Businesses including used automobile retailing, credit retailing and check cashing businesses which began generating revenues in fiscal 1998. We sold AdvantEDGE Auto, Inc. in August 1998 for \$4.0 million and are in the process of discontinuing the remaining Non-Rent-to-Own Businesses.
- (2) Nonrecurring charges in 1996 relate to the consolidation of corporate and field offices and reductions in the number of employees. In 1998, nonrecurring charges represents (i) approximately \$12.3 million in charges related to discontinued Non-Rent-to-Own Businesses, closure of certain nonperforming rent-to-own stores and reorganized administrative support functions, and (ii) approximately \$2.1 million related primarily to Thorn Americas' writedown of cellular phone inventory.
- (3) The rent-to-own financial data and certain operating data represents Thorn Americas' historical financial results, excluding the operations of the Non-Rent-to-Own Businesses, which are accounted for as separate divisions.
- (4) We excluded depreciation of rental merchandise.
- (5) We excluded purchases of rental merchandise.
- (6) Our revenues for the three months ended June 30, 1997 and 1998 have been annualized.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the results of operations of Rent-A-Center for the period ending September 30, 1998 reflects the consummation of the acquisition of Thorn Americas by Rent-A-Center, the issuance by Rent-A-Center of the convertible preferred stock, the offering of the notes and the repurchase of \$25 million of Rent-A-Center's stock, all of which occurred during the third quarter of 1998. However, the discussion and analysis of the periods ending prior to September 30, 1998 do not reflect the significant impact of these transactions on the operations and financial results of Rent-A-Center. See "Risk Factors," "Unaudited Pro Forma Combined Financial Information" and "-- Liquidity and Capital Resources of Rent-A-Center" for further discussion relating to the impact on Rent-A-Center. The following discussion should be read in conjunction with "Selected Historical Financial Information -- Rent-A-Center," "Thorn Americas' Selected Historical Financial Information" and the Financial Statements, including the notes thereto, incorporated by reference herein.

GENERAL

Rent-A-Center is the largest operator in the United States rent-to-own industry with approximately 25% market share, based on store count. In June 1998, Rent-A-Center entered into an agreement to acquire Thorn Americas, Inc. with Thorn plc, a UK-based company, to purchase Thorn Americas, an indirect wholly-owned subsidiary of Thorn plc. Proceeds from the senior credit facilities, senior subordinated facility and the sale of the convertible preferred stock were used to fund the Thorn Americas acquisition, refinance Rent-A-Center's pre-acquisition indebtedness and repurchase \$25 million of Rent-A-Center's common stock held by J. Ernest Talley. Rent-A-Center's stores offer home electronics, appliances, and furniture and accessories under flexible rental purchase agreements that allow its customers to obtain ownership of the merchandise at the conclusion of the agreed upon rental period.

Rent-A-Center has developed a plan to integrate the operations of Thorn Americas with Rent-A-Center's business practices. The main initiatives of this integration plan are to

- - eliminate duplicative general and administrative expenses,
- - eliminate Thorn Americas' distribution network,
- - implement Rent-A-Center's management practices into Thorn Americas' stores,
- - increase the number of higher margin products available for rent while eliminating lower margin products, and
- - divest non-core assets.

Rent-A-Center believes its integration plan will be fully implemented within the 18-24 months following the acquisition and will yield net annual cost savings of \$30 million. In addition to the anticipated net cost savings from its implementation plan, Rent-A-Center anticipates additional improvement in sales and profitability as a direct result of the investment Rent-A-Center intends to make in Thorn Americas' stores.

As part of the Thorn Americas acquisition, Rent-A-Center acquired certain of the Non-Rent-to-Own Businesses which began generating revenues in fiscal 1998. Rent-A-Center discontinued the operations of the Non-Rent-to-Own Businesses. For the fiscal year ended March 31, 1998, the Non-Rent-to-Own Businesses generated revenue of \$20.2 million and a net loss before income taxes of \$5.2 million. Subsequent to the Thorn Americas acquisition, Rent-A-Center sold all of the outstanding stock of AdvantEDGE Auto, Inc., a Non-Rent-to-Own Business, for approximately \$4.0 million.

Since 1993, Rent-A-Center's store count has grown from 27 to 2,126 through acquisitions and new store openings. In May 1998, Rent-A-Center completed the acquisition of Central Rents, Inc., acquiring substantially all of the assets of an underperforming rent-to-own operator which expanded Rent-A-Center's presence in a region of the country, the Southwest, which Rent-A-Center had strategically targeted for expansion. Rent-A-Center expects to generate annual general and administrative cost savings as a result of the Central acquisition of \$2.6 million. These cost savings will be derived primarily from the closing of Central Rents' corporate headquarters and the elimination of duplicative corporate and administrative functions. In addition to these general and administrative cost reductions, Rent-A-Center anticipates that it will gradually bring the store operating performance of Central Rents in line with its own store margins within 24-30 months following the date of the Central acquisition.

Rent-A-Center operates on a December 31 fiscal year end. Thorn Americas' historical results of operations, which were based upon a March 31 fiscal year end, have not been restated to a December 31 year end for the purpose of any pro forma financial presentation of Rent-A-Center's historical operations.

#### COMPONENTS OF INCOME

**Revenue.** Rent-A-Center collects nonrefundable rental payments and fees in advance, generally on a weekly or monthly basis. This revenue is recognized when collected. Rental purchase agreements generally include a discounted early purchase option. Amounts received upon sales of merchandise pursuant to such options, and upon the sale of used merchandise, are recognized as revenue when the merchandise is sold.

**Franchise Revenue.** Revenue from the sale of rental equipment is recognized upon shipment of the equipment 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.** Except for tax purposes, Rent-A-Center depreciates its rental merchandise using the income forecasting method. The income forecasting method of depreciation does not consider salvage value and does not allow the depreciation of rental merchandise during periods when it is not generating rental revenue. For periods prior to 1996, Rent-A-Center used the income forecasting method to calculate depreciation of its rental merchandise for tax purposes. However, in 1996, Rent-A-Center began using the MACRS method of depreciation using a five-year class life for its rental purchase merchandise. In August 1997, the Internal Revenue Service issued a revenue ruling requiring rental purchase companies to use MACRS, with a three year class life for all purchases after August 5, 1997. Rent-A-Center began application of the ruling for all purchases effective August 5, 1997, and thereafter.

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 and regional management salaries, travel and occupancy, including any related benefits and taxes, as well as all store level general and administrative expenses and selling, advertising, occupancy, nonrental depreciation and other operating expenses.

General and Administrative Expenses. General and administrative expenses include all corporate overhead expenses related to Rent-A-Center's headquarters such as salaries, taxes and benefits, occupancy, administrative and other operating expenses, as well as Regional Vice Presidents' salaries, travel and office expenses.

## RESULTS OF OPERATIONS -- RENT-A-CENTER

The following table sets forth, for the periods indicated, certain historical Statement of Earnings data as a percentage of total revenue from stores and total revenue from franchise operations.

	YEARS ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,		YEARS ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1997	1997	1998	1995	1996	1997	1997	1998
	(COMPANY OWNED STORES ONLY)					(FRANCHISE OPERATIONS)				
Revenue										
Rentals and fees.....	94.7%	94.7%	94.9%	94.7%	94.2%	--%	--%	--%	--%	--%
Merchandise Sales....	4.8	5.0	4.9	5.1	5.4	--	89.6	90.3	88.8	88.3
Other/Royalties.....	0.5	0.3	0.2	0.2	0.4	--	10.4	9.7	11.2	11.7
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	100.0%	100.0%	100.0%	100.0%	100.0%	--%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====	==	=====	=====	=====	=====
Operating Expenses										
Direct store expenses										
Depreciation of rental merchandise.....	22.2%	20.5%	19.7%	20.0%	21.4%	--%	--%	--%	--%	--%
Cost of merchandise sold.....	3.8	3.9	3.9	3.9	3.9	--	85.0	86.6	85.0	84.8
Salaries and other expenses.....	52.5	55.6	56.0	56.2	56.1	--	--	--	--	--
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	78.5	80.0	79.6	80.1	81.4	--	85.0	86.6	85.0	84.8
General and administrative expenses.....	4.3	3.8	3.8	3.6	5.0	--	7.7	5.3	6.3	6.0
Amortization of intangibles.....	2.3	2.3	1.7	1.7	1.7	--	0.6	1.0	1.2	0.8
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total operating expenses.....	85.1	86.1	85.1	85.4	88.1	--	93.3	92.9	92.5	91.6
Operating profit.....	14.9	13.9	14.9	14.6	11.9	--	6.7	7.1	7.5	8.4
Interest expense/ (income).....	1.0	0.1	0.8	0.9	3.9	--	(1.9)	(0.6)	(1.7)	(0.8)
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Earnings before income taxes.....	13.9%	13.8%	14.1%	13.7%	8.0%	--%	8.6%	7.7%	9.2%	9.2%
	=====	=====	=====	=====	=====	==	=====	=====	=====	=====



Rent-A-Center has increased the number of stores owned from 27 at the beginning of 1993 to 2,126 at December 31, 1998. The following table shows the number of stores opened, acquired and closed during 1993 through 1998.

FISCAL YEAR ENDED DECEMBER 31,	RENT-A-CENTER				
	BEGINNING OF PERIOD STORE COUNT	NEW STORE OPENINGS	STORE ACQUISITIONS	STORE CLOSINGS	END OF PERIOD STORE COUNT
1993.....	27	1	84	--	112
1994.....	112	2	--	--	114
1995.....	114	4	209	(2)	325
1996.....	325	13	94	(9)	423
1997.....	423	10	76	(5)	504
1998.....	504	1	1,633	(12)	2,126

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COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

Total revenue increased by \$220.1 million, or 92.0%, to \$459.4 million for 1998 from \$239.3 million for 1997. The increase in total revenue was primarily attributable to the Thorn Americas acquisition and the Central acquisition. Same store revenues increased by \$17.1 million, or 8.7% to \$214.0 million for 1998 from \$196.9 million in 1997. Same store revenues represent those revenues earned in stores that were operated by Rent-A-Center for the entire nine-month periods ending September 30, 1998 and 1997. This improvement was primarily attributable to an increase in both the number of items on rent and in revenue earned per item on rent.

Depreciation of rental merchandise increased by \$49.1 million, or 116.2%, to \$91.4 million for 1998 from \$42.3 million for 1997. Depreciation of rental merchandise expressed as a percent of total store rental and fee revenue increased from 21.0% in 1997 to 22.8% in 1998. The increase was primarily attributable to the Central acquisition and the Thorn Americas acquisition, as these companies were experiencing depreciation rates of 22.9% and 29.8% respectively. Rent-A-Center is in the process of implementing its pricing strategy and inventory management practices in the stores acquired pursuant to the Thorn Americas acquisition and the Central acquisition.

Salaries and other expenses expressed as a percentage of total store revenue decreased to 55.8% for 1998 from 56.2% for 1997. This decrease is attributable to the increase in store revenues from the Thorn Americas acquisition and the Central acquisition, as well as the same store base, and Rent-A-Center has experienced some efficiencies in spreading costs over a larger store base, in particular advertising costs and certain service costs. General and administrative expenses expressed as a percent of total revenue decreased from 4.0% in 1997 to 3.9% in 1998. This decrease was the result of increased revenues from the Central acquisition as well as the Thorn Americas acquisition, allowing Rent-A-Center to leverage its fixed and semi-fixed costs over the larger revenue base.

Operating profit, including non-recurring charges of \$2.5 million in 1998 to effect a name change of the stores using the "Renters Choice" brand name to Rent-A-Center, increased by \$27.0 million, or 82.4%, to \$59.7 million for 1998 from \$32.7 million for 1997. This improvement was primarily attributable to an increase in both the number of items on rent

and in revenue earned per item on rent, both in stores acquired before 1995 and in stores acquired in the 1996 and 1997 Acquisitions offset by the non-recurring charges. Net interest expense increased from \$1.1 million of interest expense in 1997 to \$16.5 million of interest expense in 1998. The increased interest expense and debt level relates primarily to the financing associated with Central acquisition in May 1998 and the Thorn Americas acquisition in August 1998. Net earnings for the period were also impacted negatively by non-recurring financing cost of \$5.0 million associated with the interim financing utilized in the Thorn Americas acquisition until permanent financing was obtained. Net earnings increased by \$2.5 million, or 13.7%, to \$21.0 million in 1998 from \$18.5 million in 1997. The improvement was a result of the increase in operating profit described above.

#### COMPARISON OF YEARS ENDED DECEMBER 31, 1997 AND 1996

Between January 1, 1997 and December 31, 1997 Rent-A-Center acquired 76 stores, five of which were subsequently consolidated with existing locations, in 18 separate transactions. The 1997 acquisitions were accounted for as purchases, and accordingly, the operating results of the acquired operations have been included in the results of operations of Rent-A-Center since the respective dates of acquisition. Primarily as a result of the 1997 Acquisitions, comparisons of Rent-A-Center's operating results for 1997 and 1996 may not be meaningful or indicative of future results.

Revenues. Total revenue increased by \$93.5 million, or 39.3%, to \$331.5 million for 1997 from \$238.0 million for 1996. Store revenues increased \$80.3 million, or 38.3% to \$290.1 million in 1997 from \$209.8 million in 1996. The increase in store revenue was primarily due to the inclusion of 76 stores acquired in 1997 and the full year impact of the 94 stores acquired in 1996. Store revenues also increased as a result of the increase in same store revenue growth of 8.1%. Same store revenues increased due to an increase in both the number of items on rent and in revenue earned per item on rent. Franchise revenues increased \$13.2 million, or 46.9% to \$41.4 million from \$28.2 million in 1996. This increase was primarily due to the inclusion of the franchise operations for an entire year in 1997, compared to only eight months in 1996.

Depreciation of rental merchandise. Depreciation of rental merchandise increased \$14.2 million, or 33.0%, to \$57.2 million for 1997 from \$43.0 million for 1996. Depreciation of rental merchandise as a percent of total store revenue decreased to 19.7% for 1997 from 20.5% for 1996. The decrease in depreciation of rental merchandise as a percent of revenue was primarily attributable to higher rental rates on rental merchandise.

Salaries and other expenses. Salaries and other expenses as a percentage of store revenue increased to 56.0% for 1997 from 55.6% for 1996. This increase was primarily attributable to the increase in salaries for employees and other expenses of the acquired stores immediately following the acquisitions. Occupancy costs also increased as a percent of total store revenue due to the relocation of certain stores acquired in 1996 and 1997 to locations that are larger in square footage. Generally, revenue from these stores increased gradually while the additional payroll and occupancy costs were incurred immediately. The average square footage per store was approximately 4,150 at December 31, 1996 as compared to 4,290 for 1997.

General and administrative expenses. General and administrative expenses expressed as a percentage of total revenue decreased to 4.0% for 1997 from 4.2% for 1996. Expressed as a percentage of store revenue only, general and administrative expenses, exclusive of expenses relative to ColorTyme, were 3.8% in both 1997 and 1996. Franchise general and administrative expenses as a percentage of franchise revenue totaled 5.3% in 1997, down significantly from 7.7% in 1996. This decrease was primarily attributable to streamlining efforts as overhead reductions were implemented in 1996 and 1997.

Operating profit. Operating profit increased by \$14.9 million, or 48.1%, to \$45.9 million for 1997 from \$31.0 million for 1996.

Net earnings. Net earnings increased by \$7.9 million, or 43.9%, to \$25.9 million in 1997 from \$18.0 million in 1996. The improvement was primarily attributable to the increase in operating profit described above.

#### COMPARISON OF YEARS ENDED DECEMBER 31, 1996 AND 1995

In May 1996, Rent-A-Center completed the acquisition of ColorTyme, and between May 1996 and December 1996, Rent-A-Center acquired a total of 94 additional stores. The 1996 acquisitions were accounted for as purchases, and accordingly, the operating results of the acquired operations have been included in the results of operations of Rent-A-Center since the respective dates of acquisition. Primarily as a result of the 1996 Acquisitions on Rent-A-Center's results of operations, comparisons of Rent-A-Center's operating results for 1996 and 1995 may not be meaningful or indicative of future results.

Total revenues. Total revenue increased by \$104.7 million, or 78.5%, to \$238.0 million for 1996 from \$133.3 million for 1995. Store revenues increased \$76.5 million, 57.4% to \$209.8 million in 1996 from \$133.3 million in 1995. The increase in store revenue was primarily due to the inclusion of stores acquired in 1996 and the full year impact of the stores acquired in 1995. Store revenues also increased as a result of the increase in same store revenue growth of 3.8%. Some store revenues increased primarily due to an increase in both the number of items on rent and in revenue per rental. Franchise revenue was \$28.2 million in 1996.

Depreciation of rental merchandise. Depreciation of rental merchandise increased by \$13.4 million, or 45.3%, to \$43.0 million for 1996 from \$29.6 million for 1995. Depreciation of rental merchandise as a percent of total store revenue decreased to 20.5% for 1996 from 22.2% for 1995. The decrease in depreciation of rental merchandise as a percent of revenue was primarily attributable to higher rental rates on rental merchandise.

Salaries and other expenses. Salaries and other expenses as a percentage of store revenue increased to 55.6% for 1996 from 52.5% for 1995. This increase is primarily attributable to the increase in salaries for employees and other expenses of the acquired stores immediately following the acquisitions while store revenue has increased gradually. Additionally, Rent-A-Center increased its advertising efforts during 1996 in the markets related to the stores acquired in 1996. Occupancy costs also increased as a percent of total store revenue due to the relocation of certain stores acquired in 1996 to stores that are larger in square footage. Revenue from these stores increased gradually while the

additional occupancy costs are incurred immediately. The average square footage per store was approximately 3,800 at December 31, 1995 compared to 4,150 at December 31, 1996.

General and administrative expenses. General and administrative expenses expressed as a percentage of total revenue decreased to 4.2% for 1996 from 4.3% for 1995. This relatively small decrease was primarily attributable to the leveraging of corporate overhead expenses over a larger store and revenue base offset by franchise general and administrative expenses incurred in 1996 for the first year of operations. Franchise general and administrative expenses as a percentage of franchise revenue totaled 7.7% in 1996. This increase was offset by the decrease in corporate overhead for store operations in 1996, which declined to 3.8% of store revenue in 1996 compared to 4.3% in 1995.

Operating profit. Operating profit increased by \$11.2 million, or 56.6%, to \$31.0 million for 1996 from \$19.8 million for 1995.

Net earnings. Net earnings increased by \$7.3 million, or 68.2%, to \$18.0 million for 1996 from \$10.7 million for 1995. The improvement was primarily attributable to the increase in operating profit described above, as well as a reduction in interest expense from 1995.

#### LIQUIDITY AND CAPITAL RESOURCES

Rent-A-Center's primary liquidity requirements are for debt service under its senior credit facilities, the notes, other indebtedness outstanding, working capital and capital expenditures. As of September 30, 1998, Rent-A-Center's consolidated indebtedness was approximately \$892.9 million, consisting primarily of \$716.9 million of the senior credit facilities, including the senior revolving credit facility of \$1.2 million, but excluding outstanding letters of credit under the letter of credit/multidraw facility, \$175.0 million of the notes and \$1.0 million of other debt. In addition, Rent-A-Center raised \$260 million through the sale of the convertible preferred stock. During the nine months ended September 30, 1998, Rent-A-Center acquired 1,632 stores for an aggregate purchase price of approximately \$1.0 billion. Rent-A-Center also opened 1 new store during the first three quarters of 1998.

Rent-A-Center purchased \$120.1 million and \$62.0 million of rental merchandise during the nine months ended September 30, 1998 and 1997, respectively.

For the nine months ended September 30, 1998, cash provided (used) by operating activities decreased by \$53.5 million, from \$21.6 million in 1997 to (\$31.9) million in 1998, primarily due to payments on liabilities assumed in the Thorn Americas acquisition. Cash used in investing activities increased by \$918.1 million from \$36.7 million in 1997 to \$954.8 million in 1998, principally related to the greater number of stores acquired in 1998 as compared to the number of stores acquired during the same period for 1997. Cash provided by financing activities was \$1,072.4 million for the nine months ended September 30, 1998.

At September 30, 1998, Rent-A-Center had in place a \$962 million senior credit facility. Borrowings under the senior credit facility bore interest at a rate equal to 0.25% to 1.75% over the designated prime rate, which was 8.5% per annum at September 30, 1998, or 1.25% to 2.75% over LIBOR, which was 5.375% at September 30, 1998, at Rent-A-Center's option. At September 30, 1998, the average rate on outstanding borrowings was 8.2%. For the quarter, the weighted average interest rate under the senior

credit facility was 8.4%. During the quarter, Rent-A-Center entered into certain interest rate protection agreements with two banks. Under the terms of the interest rate agreements, the LIBOR rate used to calculate the interest rate charged on \$500 million of the outstanding senior term debt has been fixed at an average rate of 5.59%. These interest rate agreements have terms of three and five years. Borrowings were collateralized by a lien on substantially all of the assets of the Company. A commitment fee equal to .25% to .50% of the unused portion of the term loan facility was payable quarterly. The senior credit facility included certain net worth and fixed charge coverage requirements, as well as covenants which restrict additional indebtedness and the disposition of assets not in the ordinary course of business. On September 30, 1998, the outstanding borrowings under the senior credit facility were \$716.9 million.

Principal and interest payments under the senior credit facilities and the notes will represent significant liquidity requirements for Rent-A-Center. Under the term loans, Rent-A-Center will be required to make principal payments totaling approximately \$2.0 million in 1999, \$14.0 million in 2000, \$22.0 million in 2001, \$26.0 million in 2002, and \$30.0 million in 2003. Loans under the senior credit facilities will bear interest at floating rates based upon the interest rate option selected by Rent-A-Center. Under the terms of the senior credit facilities, Rent-A-Center is required to purchase and maintain interest rate protection with respect to 50% of the term loans for 3 years. During September 1998, Rent-A-Center entered into a three-year interest rate swap for \$250 million and a five-year interest rate swap for \$250 million. These swaps fixed the interest rate plus the applicable spread for the applicable periods. The blended interest rate for the swaps is 5.59%. See "Description of Other Indebtedness."

During the quarter ended September 30, 1998, Rent-A-Center issued \$175 million of senior subordinated notes in a private placement transaction under Rule 144A. The proceeds from the note issuance were used to retire a \$175 million senior subordinated credit facility entered into in conjunction with the senior credit facility.

In connection with the integration plan for Thorn Americas, Rent-A-Center expects to incur \$45.0 million of nonrecurring cash costs within 24 months following the Thorn Americas acquisition.

Capital expenditures are generally to maintain existing operations and for the acquisition and opening of stores. Rent-A-Center expects to spend approximately \$26.4 million in 1998 and \$24.8 million in 1999 on capital expenditures, all of which are to maintain existing operations. Furthermore, Rent-A-Center purchases new property and equipment in connection with a store acquisition or new store opening.

During the next twelve to twenty-four months, Rent-A-Center's central business strategy is to successfully integrate the Thorn Americas acquisition and the Central acquisition into the Rent-A-Center system. Once completed, Rent-A-Center intends to resume its strategy to increase its store base and annual revenues and profits through the opening of new stores, as well as opportunistic acquisitions. Rent-A-Center anticipates ample opportunities to increase its store base through its continued participation in the industry consolidation and the possibility for increased penetration and expansion of its existing customer base.

After the assimilation of the Thorn Americas acquisition and the Central acquisition, Rent-A-Center plans to accomplish its future growth through selective and opportunistic acquisitions, with an increasing emphasis on new store development. Typically, a newly

opened rental store is profitable on a monthly basis in the sixth to seventh month after its initial opening. Historically, a typical store has achieved break-even profitability in twelve to fifteen months after its initial opening. Total financing requirements of a typical new store approximates \$350,000, with roughly 80% to 85% of that amount relating to the purchase of rental merchandise inventory. A newly opened store historically has achieved results consistent with other Rent-A-Center stores that have been operating within the system for greater than two years by the end of its third year of operation. There can be no assurance that Rent-A-Center will be able to acquire any additional stores, or that any stores that are acquired will be or will become profitable, nor is there any assurance that Rent-A-Center will open any new stores in the future, or as to the number, location or profitability thereof.

Rent-A-Center believes that cash flow from operations together with amounts available under the senior credit facilities, including the revolving credit facility and letter of credit/multidraw facility therein, will be sufficient to fund its debt service requirements, working capital needs, capital expenditures and litigation exposure during 1998 and 1999. The revolving credit facility provides Rent-A-Center with revolving loans in an aggregate principal amount not exceeding \$120.0 million and the letter of credit/multidraw facility will provide Rent-A-Center with an additional \$122.25 million of financing to support certain litigation assumed in connection with the Thorn Americas acquisition. Based upon its extensive review and analysis of such litigation and its potential exposure thereon, Rent-A-Center believes it will have sufficient funds available to pay any litigation expenses related to such litigation. In addition, once the letter of credit is terminated, the letter of credit/multidraw facility will convert to a \$85 million term loan.

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

#### YEAR 2000 CONVERSION

Year 2000 issues exist when dates are recorded on computers using two digits, rather than four, and are then used for arithmetic operations, comparisons or sorting. A two digit recording may recognize a date using "00" as 1900, rather than 2000, which could cause computer systems to perform inaccurate computations or shut down. Many of the world's computer systems currently record years in this two-digit format and will be unable to properly interpret dates beyond the year 1999, which could lead to disruptions in Rent-A-Center's operations.

Management Information Systems. Rent-A-Center's primary information technology system controls all of its computer operations in its rent-to-own stores and home office. Rent-A-Center has received written assurance from its software vendor that the system is Year 2000 compliant, which means that it is equipped to interpret dates beyond the year 1999. Additionally, Rent-A-Center has engaged external resources to complete an

independent review of its other information systems. Rent-A-Center anticipates that this review will be completed during the first quarter of 1999.

As of December 31, 1998, Rent-A-Center has incurred costs of approximately \$160,000 in assuring Year 2000 compliance through upgrades. Additionally, as part of its recent expansion, Rent-A-Center purchased new hardware and software for its home office that is warranted to be Year 2000 compliant. All upgrades in Rent-A-Center's home office and ColorTyme offices have been completed.

Rent-A-Center's primary information technology system is also being integrated into the retail outlets and operations acquired from Thorn Americas. In 1999, Rent-A-Center anticipates upgrading all of its retail stores to the Year 2000 compliant system at an estimated cost of \$62,500. Furthermore, Rent-A-Center plans to test each store's hardware for Year 2000 compliance. Currently, Rent-A-Center anticipates that approximately 300 retail stores will need to upgrade hardware, at an aggregate cost of \$900,000.

Major Suppliers. Rent-A-Center is currently requesting written assurances from each of its vendors, confirming that such vendors are Year 2000 compliant. Rent-A-Center utilizes many suppliers and no single supplier is material to its operations. As a result, Rent-A-Center believes it has the ability to obtain merchandise for its retail outlets from many different vendors. In the event any vendors are not Year 2000 compliant, Rent-A-Center anticipates having sufficient alternate supply sources available to serve its needs.

Other Systems. Rent-A-Center is in the process of identifying certain on-site non-information technology systems that may be Year 2000 sensitive. Once these systems have been fully identified, Rent-A-Center will determine, with the help of outside vendors, whether these systems are vulnerable to Year 2000 problems. Potential non-information technology systems include:

- alarms,
- elevators,
- irrigation systems,
- thermostats, and
- utility meters and switches.

Rent-A-Center plans to complete the identification, testing, and replacing of such systems for Year 2000 compliance during 1999. Rent-A-Center does not believe that the cost to repair or replace any vulnerable non-information technology systems will be material. However, there can be no guarantee that the systems of other companies on which Rent-A-Center relies will be timely converted and will not have an adverse effect on our operations.

In the event of a complete failure of its information technology systems, Rent-A-Center would continue the affected functions either manually or through the use of systems that are not Year 2000 compliant. The primary costs associated with such a necessity would be (A) increased time delays in the posting of information, and (B) increased personnel to manually process the information. Rent-A-Center believes that the increased costs associated with such personnel would not have a material adverse affect on its operations or financial condition.

Rent-A-Center does not currently have a contingency plan in place. Rent-A-Center will evaluate the need for such a plan in 1999 as its Year 2000 conversion progresses.

The cost of Year 2000 compliance and the estimated date of completion of necessary modifications are based on Rent-A-Center's best estimates, which were derived from various assumptions of future events, including the continued availability of resources, third party modification plans and other factors. However, Rent-A-Center cannot guarantee these estimates are accurate and actual results could differ materially from those anticipated.

#### INFLATION

During the years ended December 31, 1997, 1996 and 1995, the cost of rental merchandise, lease expense and salaries and wages have increased modestly. The increases have not had a significant effect on Rent-A-Center's results of operations because Rent-A-Center has been able to charge proportionally higher rental rates for its merchandise.

#### RESULTS OF OPERATIONS -- THORN AMERICAS

The following table sets forth, for the periods indicated, certain historical Statement of Operations data as a percentage of total revenue.

	YEAR ENDED MARCH 31,			THREE MONTHS ENDED JUNE 30,	
	1996	1997	1998	1997	1998
Revenue					
Rent-to-own revenue.....	100.0%	100.0%	97.3%	99.0%	96.6%
Non-rent-to-own revenue.....	--	--	2.7	1.0	3.4
	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====
Operating Expenses					
Depreciation of rental merchandise.....	28.7%	28.1%	27.0%	27.9%	26.7%
Amortization of intangibles.....	2.1	2.5	2.7	2.7	2.5
Cost of merchandise sold.....	4.8	4.3	5.0	3.8	5.3
Salaries, wages and fringe benefits.....	28.5	29.4	31.0	30.4	31.0
Other.....	26.3	29.0	26.8	26.1	26.1
Restructuring charges.....	1.4	--	1.4	--	--
Total operating expenses....	91.8	93.3	93.9	90.9	91.6
Operating profit.....	8.2	6.7	6.1	9.1	8.4
Interest expense/(income).....	8.9	5.6	5.1	4.8	4.7
Earnings (loss) before income taxes...	(0.7)%	1.1%	1.0%	4.3%	3.7%
	=====	=====	=====	=====	=====



Thorn Americas increased its owned stores from 1,006 at fiscal year end 1993 to 1,384 at fiscal year end 1998. The following table sets forth the number of stores, opened, acquired and closed from 1994 through 1998.

THORN AMERICAS					
FISCAL YEAR ENDED MARCH 31,	BEGINNING OF PERIOD STORE COUNT	NEW STORE OPENINGS	STORE ACQUISITIONS	STORE CLOSINGS	END OF PERIOD STORE COUNT
1994.....	1,006	54	27	(10)	1,077
1995.....	1,077	32	12	(12)	1,109
1996.....	1,109	12	200	(15)	1,306
1997.....	1,306	19	64	(22)	1,367
1998.....	1,367	34	25	(42)	1,384(1)

(1) As of June 30, 1998, Thorn Americas increased its store count by 25 to 1,409, the number of stores acquired by Rent-A-Center pursuant to the acquisition of Thorn Americas.

#### COMPARISON OF THREE MONTHS ENDED JUNE 30, 1998 AND JUNE 30, 1997

Total revenue. Total revenues were \$235.4 million for 1998 compared to \$225.6 million for 1997, an increase of 4.3% or \$9.8 million. The increase in revenues was primarily attributable to an increase in the total rental agreements outstanding, partially offset by a reduction in the average price charged per rental agreement. The increase in the total rental agreements outstanding was primarily the result of increases in the number of store locations, combined with increases in agreements outstanding in existing stores resulting from certain advertising promotions. Thorn Americas ended the quarter ending June 30, 1998 with 1,404 store locations, up from 1,392 at June 30, 1997. The increase in the number of stores since June 30, 1997 was partially offset by the impact of the closing of 42 stores in the fourth quarter of fiscal 1998. The decrease in the average price charged per rental agreement was principally due to a shift in product mix toward less expensive items such as cellular phones and pagers, as well as promotional pricing programs.

Depreciation of rental merchandise. Depreciation of rental merchandise was approximately the same in terms of dollars for both periods, \$62.9 million for 1998 and 1997. Depreciation of rental merchandise as a percent of revenues decreased to 26.7% for 1998 and from 27.9% in 1997. This decrease is primarily due to selected price increases in recent months on certain core products and an increasing emphasis on overall gross margin management.

Salaries, wages and fringe benefits. Salaries, wages and fringe benefits increased 6.6%, or \$4.5 million, to \$72.0 million for 1998 from \$68.5 million for 1997. This increase was primarily related to the increase in the number of stores and rental agreements for fiscal 1998 as these salaries and wages were largely consistent with the number of rental contracts and stores.

Other operating expenses. Other operating expenses increased 4.0%, or \$2.0 million, to \$52.7 million for 1998 from \$50.7 million for 1997. The increase was generally consistent with the revenue increase of 4.3% discussed above.

Net income. Net income decreased by \$.5 million, to \$3.3 million for 1998 from \$3.8 million in 1997.

COMPARISON OF FISCAL YEAR ENDED MARCH 31, 1998 AND FISCAL YEAR ENDED MARCH 31, 1997

Total revenue. Total revenues were \$904.0 million for fiscal 1998 compared to \$926.9 million for fiscal 1997, a decrease of 2.5% or \$22.9 million. Total rent-to-own revenues decreased by 5.1%, or \$47.3 million, to \$879.6 million for fiscal 1998 from \$926.9 million for fiscal 1997. Rent-to-own revenues are comprised of two principal components, rental revenues and other revenues. Rental revenues declined by 4.9%, or \$37.8 million, from \$764.0 million for fiscal 1997 to \$726.2 million for fiscal 1998. The decline in rental revenues is primarily attributable to a reduction in the average price charged per rental agreement offset by an increase in total rental agreements outstanding. The reduction in the average price charged per rental agreement is principally due to a shift in product mix toward less expensive items such as cellular phones and pagers, as well as a promotional pricing program. The increase in the total rental agreements outstanding is primarily the result of promotional activities and an increase in the average number of stores open during the year. During the fiscal year, Thorn Americas acquired and opened a total of 59 stores, but this was offset by the closing of 42 stores in the fourth quarter of fiscal 1998. Other revenues decreased slightly to \$153.4 million for fiscal 1998 versus \$162.9 million for fiscal 1997. This decrease was primarily attributable to decreased sales of used merchandise for fiscal 1998 due to stronger business conditions and less build-up of excess idle inventory resulting from a better product mix of the volume of merchandise rented. This decrease was offset by increases in ancillary service fees and revenues associated with the rental of merchandise to commercial business. Ancillary services include the sale of product protection plans, cellular phones and pager airtime. The introduction of the Value Club program by Thorn Americas for fiscal 1998, in particular, contributed positively to Other Revenues. The Value Club program provides customers loss damage waiver protection, extended service contracts, and other miscellaneous benefits such as dental savings, grocery coupons, discounts on auto service, entertainment discounts and emergency auto assistance. The balance of total revenues in 1998 of \$24.4 million is due to Non-Rent-to-Own Businesses, which were approximately \$20.2 million, including used car retailing, credit retailing and check cashing kiosks and conforming adjustments, which approximated \$4.2 million. Non-Rent-to-Own Businesses had no revenues in 1997.

Depreciation of rental merchandise. Depreciation of rental merchandise decreased by \$15.8 million, or 6.1%, to \$244.6 million for fiscal 1998 from \$260.4 million for fiscal 1997. Depreciation of rental merchandise as a percent of rent-to-own revenues decreased to 27.8% for 1998 and from 28.1% for 1997. This decrease was primarily due to results from the change in product mix discussed above and a reduction in the average quantity and cost of idle inventory held as available for rent in the stores. This reduction in idle inventory was largely due to the implementation of a new jewelry strategy in October 1997, which used alloy-based prototypes rather than actual jewelry for display in the stores.

Salaries, wages and fringe benefits. Salaries, wages and fringe benefits increased 2.8%, or \$7.6 million, to \$279.8 million for fiscal 1998 from \$272.2 million for fiscal 1997. This increase was primarily attributable to the increase in number of rental agreements for fiscal 1998 as these salaries and wages are largely consistent with the number of rental contracts.

Other operating expenses. Other operating expenses decreased 18.0%, or \$25.9 million, to \$117.6 million for fiscal 1998 from \$143.5 million for fiscal 1997. The decrease was primarily a result of the impact of the field reorganization that occurred at the end of fiscal 1997. As part of the reorganization, field divisional offices were closed and consolidated into the corporate office. In addition, for fiscal 1998 Thorn Americas eliminated store managers' meetings resulting in savings of \$2.0 million.

Restructuring charges. Restructuring charges were \$12.3 million for fiscal 1998, while fiscal 1997 had none. The restructuring charges related to the discontinuation of certain new concepts, certain nonperforming rental purchase stores and the reorganization of certain administrative support functions.

Operating income. Operating income decreased by \$7.0 million, or 11.2%, to \$55.3 million for fiscal 1998 from \$62.3 million for fiscal 1997. This decrease was primarily attributable to the reasons stated above.

Net income. Net income increased by \$5.5 million, or 137.5%, to \$1.5 million for fiscal 1998 from a net loss of \$4.0 million the fiscal 1997.

#### COMPARISON OF FISCAL YEAR ENDED MARCH 31, 1997 AND FISCAL YEAR ENDED MARCH 31, 1996

In August 1995, Thorn Americas completed the U-Can-Rent acquisition, and in January 1996, Thorn Americas completed the Advantage, Inc. acquisition. The financial results of these stores are included in Thorn Americas' fiscal 1996 results from the dates of the respective acquisitions.

Total revenue. Total revenues were \$926.9 million for fiscal 1997 compared to \$897.9 million for fiscal 1996, an increase of \$28.9 million, or 3.2%. Non-Rent-to-Own Businesses had no revenues in 1997 and 1996. Rent-to-own revenues are comprised of two principal components, rental revenue and other revenue. Rental revenue increased 2.7%, or \$19.9 million, during fiscal 1997 to \$764.0 million from \$744.1 million for fiscal 1996. The increase was primarily attributable to two acquisitions made during fiscal 1996. The increase in rental revenue experienced in fiscal 1997 as a result of these acquisitions was offset by soft results experienced by Thorn Americas overall. Thorn Americas' net portfolio of agreements outstanding during fiscal 1997 declined by 55,400 primarily due to a disappointing holiday season. Other revenue increased 5.9%, or \$9.1 million, during fiscal 1997 to \$162.9 million from \$153.8 million for fiscal 1996. The increase was primarily attributable to the impact of, Thorn Americas' acquisitions made during fiscal 1996, as discussed above, as well as the increase in revenues associated with, Thorn Americas' commercial rental business, which commenced operation in August 1995. In addition, during fiscal 1997, Thorn Americas experienced a substantial increase in customer participation in its Value Club program which was introduced in fiscal 1996.

Restructuring charges. Restructuring charges were \$12.6 million for fiscal 1996 while fiscal 1997 had none. The restructuring charges related to the consolidation of offices and

reductions in the number of employees. These charges were primarily made up of employee separation costs.

Depreciation of rental merchandise. Depreciation of rental merchandise increased by \$3.1 million, or 1.2%, to \$260.4 million for fiscal 1997 from \$257.4 million for fiscal 1996. Depreciation of rental merchandise as a percent of rent-to-own revenues decreased to 28.1% for fiscal 1997 from 28.7% for fiscal 1996. This increase was primarily attributable to the result of the 1996 acquisitions and the associated increase in rental merchandise held as available for rent in the stores.

Salaries, wages and fringe benefits. Salaries, wages and fringe benefits increased 6.4% or \$16.5 million, to \$272.2 million for fiscal 1997 from \$255.8 million for fiscal 1996. This increase was primarily attributable to the impact of the 1996 acquisitions and a reduction in average revenue per store for fiscal 1997 compared to fiscal 1996.

Other operating expenses. Other operating expenses increased \$27.2 million, or 23.4%, to \$143.5 million for fiscal 1997 from \$116.3 million for fiscal 1996.

Operating income. Operating income decreased by \$11.7 million, or 15.8%, to \$62.3 million for fiscal 1997 from \$74.0 million for fiscal 1996. This decrease was primarily attributable to the reasons stated above.

Net loss. The net loss decreased by \$9.1 million, or 69.5% to a loss of \$4.0 million for fiscal 1997 from a loss of \$13.1 million for fiscal 1996.

#### HISTORICAL LIQUIDITY AND CAPITAL RESOURCES -- THORN AMERICAS

Thorn Americas' primary capital requirements were the acquisition of existing stores, the opening of new stores, the purchase of additional rental merchandise and the purchase of replacement rental merchandise.

Capital spent on the purchase of new rental merchandise in 1998 was \$306.8 million compared to \$289.5 million and \$299.7 million in 1997 and 1996, respectively. The cost of depreciation of rental merchandise was \$244.6 million, \$260.4 million and \$257.4 million in 1998, 1997 and 1996, respectively.

The following table sets forth (A) the number of stores acquired, (B) the cash consideration paid for such stores, and (C) capital expenditures for the 1998, 1997 and 1996 fiscal years:

	(\$MILLIONS)		
	1996	1997	1998
Number of stores acquired.....	200	64	25
Cash consideration for acquired stores.....	\$124.6	\$21.1	\$ 7.6
Capital expenditures for property and equipment:			
Transportation equipment.....	\$ 19.3	\$10.9	\$ 8.0
Computer furniture and equipment.....	8.8	3.8	5.5
Leasehold improvements.....	4.4	12.5	12.1
Store fixtures and equipment.....	4.2	4.9	11.5
Buildings.....	7.3	--	--
Other.....	0.6	0.2	1.0
Total.....	\$ 44.6	\$32.3	\$38.1

#### QUARTERLY RESULTS -- RENT-A-CENTER

The following table contains certain unaudited historical financial information for the quarters indicated.

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
	(DOLLARS IN THOUSANDS)			
Nine months ended September 30, 1998(1)				
Revenue.....	\$90,233	\$103,313	\$265,886	n/a
Operating profit.....	13,721	15,547	30,467	n/a
Year ended December 31, 1997(2)				
Revenue.....	\$74,587	\$ 80,803	\$ 83,864	\$92,288
Operating profit.....	9,639	11,341	11,766	13,192
Year ended December 31, 1996(3)				
Revenue.....	\$49,002	\$ 57,756	\$ 60,025	\$71,182
Operating profit.....	6,344	7,558	7,957	9,183

(1) During 1998, 5 stores were purchased during the first quarter; 177 stores were purchased during the second quarter; and 1,450 stores were purchased during the third quarter. In addition, one store was opened in the first quarter of 1998.

(2) During 1997, 28 stores were purchased during the first quarter; 39 stores were purchased during the second quarter; and nine stores were purchased during the third quarter. Of the 76 stores acquired, five were subsequently consolidated with existing store locations. In addition, two stores were opened during the first quarter; two stores were opened during the second quarter; four stores were opened during the third quarter; and two stores were opened during the fourth quarter.

(3) During 1996, 11 stores were purchased during the second quarter, 12 stores were purchased during the third quarter, and 71 stores were purchased during the fourth quarter of 1996. In addition, three stores were opened in the second quarter, four

stores were opened in the third quarter, and six stores were opened in the fourth quarter of 1996.

#### EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

In 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 addresses the manner in which certain items included in stockholders equity are displayed in the financial statements, but does not affect reported assets or net earnings. Rent-A-Center adopted SFAS No. 130 effective January 1, 1998.

In 1997, the FASB issued SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information." See Note A to the consolidated financial statements of Rent-A-Center, Inc. and Subsidiaries for further discussion.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" effective for fiscal years beginning after June 15, 1998. Rent-A-Center will account for the derivative transactions required under the terms of the Senior Credit Facilities in accordance with SFAS No. 133.

## BUSINESS

## RENT-A-CENTER

Rent-A-Center is the largest operator in the rent-to-own industry with approximately 25% market share, based on the number of stores. As of December 31, 1998, Rent-A-Center operated 2,126 company-owned stores, and franchised 324 stores, in 50 states, Puerto Rico and the District of Columbia. Rent-A-Center's stores offer home electronics, appliances, and furniture and accessories under flexible rental purchase agreements that allow customers to obtain ownership of the merchandise at the conclusion of an agreed upon rental period. The Company's revenue from rentals and fees related to these flexible rental purchase agreements, expressed as a percentage of total consolidated revenue, was 94.7%, 83.4% and 83.0% for the years ended December 31, 1995, 1996 and 1997, respectively. The rent-to-own industry appeals to a wide variety of consumers by allowing them to obtain merchandise that they might otherwise be (A) unable to purchase due to insufficient cash resources or a lack of access to credit, or (B) unwilling to purchase due to a temporary, short-term need or desire to rent.

Thorn Americas Acquisition. On August 5, 1998, Rent-A-Center acquired Thorn Americas pursuant to an agreement with Thorn plc dated June 16, 1998, for approximately \$900 million in cash, including the repayment of certain debt of Thorn Americas, subject to adjustment. Prior to this acquisition, Thorn Americas was the largest rent-to-own competitor with 1,404 company-owned stores and 65 franchised stores in 49 states and the District of Columbia. Thorn Americas operated stores under three brand names, "Rent-A-Center," "Remco" and "U-Can-Rent." Thorn Americas operated 1,158 stores under the Rent-A-Center brand, the most widely recognized store name in the rent-to-own industry.

Rent-A-Center financed the acquisition of Thorn Americas through certain financing arrangements, consisting of a senior credit facility and a senior subordinated facility. Rent-A-Center also issued a total of \$260 million in preferred stock to certain affiliates of Apollo Management IV, L.P. and to an affiliate of Bear Stearns to assist in the funding of the Thorn Americas acquisition, to repurchase \$25 million of its common stock and to repay its prior credit facility. Following the acquisition of Thorn Americas, Rent-A-Center issued the old notes to repay the senior subordinated facility. In connection with the acquisition of Thorn Americas, Rent-A-Center assumed certain of Thorn Americas' ongoing litigation, including an adverse New Jersey state court judgment, which has now been settled in principle. In addition, Thorn plc has agreed to indemnify and hold harmless Rent-A-Center and Thorn Americas from two lawsuits and has deposited \$40 million in escrow with respect to such claims and other indemnification claims Rent-A-Center may have against Thorn plc. For additional information, please read the sections entitled "Risk Factors -- Legal Proceedings" and "Business-- Legal Proceedings" located elsewhere in this prospectus.

Prior to the Thorn Americas acquisition, Rent-A-Center was the second largest competitor in the rent-to-own industry with 680 company-owned stores operating under the "Renters Choice" brand name in 35 states and Puerto Rico. In addition, its ColorTyme subsidiary was the largest rent-to-own franchisor in the U.S. with 278 franchised stores in 37 states. Rent-A-Center's management team has gained extensive experience in integrating acquisitions and is headed by J. Ernest Talley, the Chairman and Chief Executive Officer

of Rent-A-Center, who is generally credited with founding the rent-to-own industry in the early 1960's. Since 1993, Rent-A-Center's store count has grown from 27 to 2,126 through acquisitions and new store openings.

#### RENT-TO-OWN INDUSTRY

Overview. According to APRO, an industry trade association, the rent-to-own industry generated approximately \$4.1 billion in revenue during 1996 through the rental of roughly 5.8 million products to approximately 3.0 million households. Rent-A-Center estimates the rent-to-own target market is greater than 20 million households, principally comprised of households with annual income from \$15,000 to \$50,000. Management estimates that the rent-to-own industry is comprised of approximately 8,300 stores. Although the five largest rent-to-own companies operate approximately 38.5% of the industry's store base, the industry is highly fragmented as the majority of rent-to-own competitors operate fewer than 20 stores. The industry has experienced significant consolidation since 1993, when the five largest rent-to-own companies operated approximately 26.6% of the industry's store base. The rent-to-own industry is experiencing consolidation primarily because larger, multi-unit operators have significant competitive advantages compared to their smaller competitors. Larger operators enjoy greater purchasing power, which enables them to offer more competitively priced merchandise and are able to operate more efficiently than smaller operators in areas such as management information systems, advertising and purchasing. Many smaller competitors lack the managerial resources necessary to operate larger rent-to-own operations efficiently across multiple locations. Management believes that these factors will continue to promote the trend toward consolidation and present an opportunity for well-capitalized operators to acquire additional stores on favorable terms.

Rent-to-Own Transaction. The rent-to-own industry provides consumers with:

- - a means of obtaining merchandise without the burden of incurring debt or qualifying for credit,
- - the ability to return merchandise at any time without future obligations,
- - flexible payment terms,
- - delivery, repair and pick-up service typically at no incremental charge, and
- - the potential for merchandise ownership after a predetermined number of payments.

The types of products rented by rent-to-own customers include: furniture and accessories, electronics, appliances, and other items including jewelry, pagers and personal computers. Customers enter into weekly or monthly rental purchase agreements, which renew automatically upon receipt of each payment. Rental payments are made each week in advance generally in cash. Rent-to-own companies retain title to rental merchandise during the term of the rental purchase agreement. Ownership of the merchandise typically transfers to the customer if the customer has continuously renewed the rental purchase agreement for a specified period of time or exercises a specified early purchase option. On average, however, ownership requirements are met on less than 25% of items being rented for the first time. Products are typically rented four to six times over a 24 month period with the average time on rent to each customer lasting approximately four months. Virtually all rental items are ultimately rented to ownership in subsequent rental



transactions. The rent-to-own transaction bears an important distinction to a traditional retail transaction: rent-to-own companies do not lend to customers or bear the associated credit risk because customers make all payments in advance. As a result, balance sheets of rent-to-own companies have very few accounts receivable.

#### BUSINESS STRENGTHS

Over the past several years, Rent-A-Center experienced significant increases in sales and operating income through acquisitions and internal growth. During this period, Rent-A-Center focused on achieving a position as a market-leading operator of rent-to-own stores. As a result, Rent-A-Center believes that it benefits from the following competitive advantages.

**Industry Leader.** Rent-A-Center is the largest competitor in the rent-to-own industry, based on the number of stores, with market share of approximately 25%. The next largest operator has a market share of less than 5.5%. Rent-A-Center's stores operate under the Rent-A-Center brand name, the most widely recognized name in the rent-to-own industry. In 1997, Rent-A-Center and Thorn Americas together served over 1 million customers. As the only nationwide rent-to-own competitor, Rent-A-Center benefits from

- - greater visibility among consumers,
- - geographic diversity,
- - increased opportunities to expand into contiguous markets,
- - certain efficiencies in areas such as advertising, purchasing and human resources, and
- - the ability to leverage its corporate overhead over a larger store base.

**Consistent Revenue and Strong Cash Flow.** In 1997, repeat customers accounted for approximately 50% of Rent-A-Center's revenues. Historically, Rent-A-Center has not experienced a significant correlation between economic conditions, as measured by GDP growth, and same store revenue growth. As a result of this loyal customer base, as well as Rent-A-Center's resilience to economic cycles, Rent-A-Center has been able to generate stable revenue. Through the successful integration of Thorn Americas into Rent-A-Center's operating system, management expects to substantially increase the profit margins and cash flows at the combined company. Consistently stable revenue and strong margins, combined with low levels of maintenance capital expenditures, provide resources that can be used to fund Rent-A-Center's growth strategy.

**Superior Customer Service.** Management believes that providing superior customer service is a key element for its long-term success. Rent-A-Center achieves a high level of customer satisfaction by providing:

- - appealing store environments,
- - premium quality, durable merchandise,
- - personal customer service, and
- - experienced, well-trained store personnel.

Rent-A-Center believes its high level of customer satisfaction allows it to maximize the number and length of rental agreements per store, leading to customer referrals and repeat business.

**Premium Quality Product Offerings.** Rent-A-Center distinguishes itself from its competitors by purchasing, marketing, and renting premium name brand products from manufacturers such as Sony, JVC and Magnavox for home electronics; La-Z-Boy, Sealy and Ashley for home furnishings and accessories; and Whirlpool, General Electric and Kenmore for appliances. In addition to satisfying customer demand, premium products reduce service costs through increased reliability. Furthermore, Rent-A-Center has developed strong relationships with its key vendors, enabling cost effective direct-to-store distribution from its vendors.

**Ability to Successfully Integrate Acquisitions.** Since 1993, Rent-A-Center has acquired 2,099 stores, giving management extensive experience in the integration of diverse rent-to-own operations. Rent-A-Center's information systems facilitate acquisition integration by providing management with operating and financial information about each store location and region and every rental purchase transaction. As a result of management's ability to implement Rent-A-Center's business practices, operating performance of the integrated stores has improved significantly. For example, in 1997, store operating margins, before field administration and corporate overhead, for all of Rent-A-Center's stores was 23.9%, while the 325 stores in the Rent-A-Center system for at least two years generated store operating margins of 26.8%. Rent-A-Center's mature stores primarily consist of acquired stores. The average store operating margin for Thorn Americas' stores for fiscal 1998 was 20.9%.

**Experienced and Committed Management Team.** Rent-A-Center has a senior management team with an average of 17 years of rent-to-own experience. J. Ernest Talley, Chairman and Chief Executive Officer of Rent-A-Center, is generally credited with founding the rent-to-own industry in the early 1960's. Rent-A-Center's management team has a significant personal economic interest in Rent-A-Center's performance: (A) the senior management group collectively owns approximately 22.36% of Rent-A-Center on a fully-diluted basis, and (B) store, regional and senior manager compensation is tied directly to store revenue and/or operating profit and such bonuses account for up to 30% of all compensation. Rent-A-Center believes that the de-centralized, entrepreneurial spirit of its field management, together with the guidance provided by senior management, will continue to be a key factor in its efforts to maximize revenue, improve margins and expand Rent-A-Center's store base.

#### BUSINESS STRATEGY

Rent-A-Center is focusing its strategic efforts on (A) the implementation of its integration plan, (B) continued efforts to improve store operations, and (C) the pursuit of strategic expansion once the integration plan is substantially in place.

**Implement the Integration Plan.** Rent-A-Center management has developed a comprehensive program for the integration of Thorn Americas, which it expects will be completed within 18-24 months following the date of the Thorn Americas acquisition. Rent-A-Center believes it will experience over \$30 million in net annual cash cost savings upon completion of the integration plan, primarily as a result of eliminating (A) duplicative general and administrative expenses, and (B) Thorn Americas' nationwide distribution network including seven distribution centers. Additional benefit and margin improvement is

expected to be realized over time as management undertakes initiatives to enhance operations in Thorn Americas stores. These cost savings represent less than 2.5% of Rent-A-Center's latest twelve months revenues. In addition, Rent-A-Center is continuing the process of integrating Central Rents, from which it expects to realize an additional \$2.6 million of annual general and administrative cost savings.

Continue to Enhance Store Operations. Management seeks to improve store performance through strategies intended to produce gains in operating efficiency and profitability. Rent-A-Center believes it will achieve these gains in revenues and operating margins in its stores by:

- - using focused advertising to increase store traffic,
- - expanding the offering of upscale, higher margin products, such as Sony wide screen televisions, La-Z-Boy recliners and JVC stereo systems, to increase the number of product rentals,
- - employing strict store-level cost control, and
- - closely monitoring each store's performance through the use of its management information system to ensure each store's adherence to established operating guidelines.

Pursue Strategic Expansion. Management has gained significant experience in the acquisition and integration of other rent-to-own operators and believes the fragmented nature of the rent-to-own industry will result in ongoing growth opportunities. Once the integration plan is substantially in place, Rent-A-Center will again focus on strategic acquisition opportunities and new store development. Rent-A-Center typically targets underperforming and undercapitalized chains of rent-to-own stores. The acquired stores benefit from the administrative network, improved product mix, sophisticated management information system and purchasing power of the larger organization while strengthening their local market position. In addition, Rent-A-Center has access to an expanding number of franchise locations, which it has the right of first refusal to purchase. Rent-A-Center believes the rent-to-own market is significantly under-penetrated and plans to continue opening new stores in current and new markets. Rent-A-Center will focus its new market penetration in adjacent areas or regions which are underserved by the rent-to-own industry. In evaluating a new market, Rent-A-Center reviews demographic statistics, cost of advertising and the number and nature of competitors.

## STORES

Store sizes range from approximately 1,500 to 8,200 square feet, and average approximately 3,600 square feet. Approximately 80% of each store's space is generally used for showroom space and 20% for offices and storage space. As of December 31, 1998, Rent-A-Center operated approximately 2,126 Company-owned stores and franchised approximately 324 stores in 50 states, Puerto Rico and the District of Columbia, as illustrated by the following table:

LOCATION	NUMBER OF STORES		LOCATION	NUMBER OF STORES	
	COMPANY OWNED	FRANCHISE		COMPANY OWNED	FRANCHISE
Alabama.....	46	--	Nebraska.....	4	--
Alaska.....	1	--	Nevada.....	16	4
Arizona.....	54	10	New Hampshire.....	15	2
Arkansas.....	23	2	New Jersey.....	40	9
California.....	119	9	New Mexico.....	10	10
Colorado.....	26	3	New York.....	100	19
Connecticut.....	17	6	North Carolina.....	94	10
Delaware.....	15	1	North Dakota.....	1	--
District of Columbia.....	4	--	Ohio.....	127	8
Florida.....	136	8	Oklahoma.....	37	13
Georgia.....	95	5	Oregon.....	6	4
Hawaii.....	11	1	Pennsylvania.....	76	5
Idaho.....	1	2	Puerto Rico.....	17	--
Illinois.....	114	--	Rhode Island.....	7	4
Indiana.....	75	17	South Carolina.....	28	1
Iowa.....	19	--	South Dakota.....	2	--
Kansas.....	28	18	Tennessee.....	78	8
Kentucky.....	42	7	Texas.....	226	60
Louisiana.....	35	5	Utah.....	16	1
Maine.....	--	11	Vermont.....	6	--
Maryland.....	46	6	Virginia.....	39	1
Massachusetts.....	40	13	Washington.....	27	3
Michigan.....	95	14	West Virginia.....	14	2
Minnesota.....	6	--	Wisconsin.....	29	2
Mississippi.....	12	10	Wyoming.....	1	--
Missouri.....	49	7			
Montana.....	1	3	Total.....	2,126	324
				=====	===

Rent-A-Center has increased its owned stores from 27 at the beginning of 1993 to 2,126 at December 31, 1998, including the acquisition of 1,409 Thorn Americas stores. The following table shows the number of stores opened, acquired and closed during 1993 through 1998.

RENT-A-CENTER

FISCAL YEARS ENDED DECEMBER 31, -----	BEGINNING OF PERIOD STORE COUNT -----	NEW STORE OPENINGS -----	STORE ACQUISITIONS -----	STORE CLOSINGS(1) -----	END OF PERIOD STORE COUNT -----
1993.....	27	1	84	--	112
1994.....	112	2	--	--	114
1995.....	114	4	209	(2)	325
1996.....	325	13	94	(9)	423
1997.....	423	10	76	(5)	504
1998.....	504	1	1,633	(12)	2,126

(1) Historically Rent-A-Center has only closed stores in connection with acquiring stores.

Rent-A-Center focuses on expansion by making acquisitions and opening new stores. With respect to store acquisitions, Rent-A-Center typically targets underperforming and undercapitalized chains of rent-to-own stores. The acquired stores benefit from the management expertise, administrative network, improved product mix, sophisticated management information system and purchasing power of the larger organization allowing them to strengthen their local market position. In addition, Rent-A-Center's information systems facilitate acquisition integration by providing management with access to operating and financial information about any store location or region in which Rent-A-Center operates and generates management reports on a daily, weekly, month-to-date and year-to-date basis for each store and every rental purchase transaction.

Store leases typically range from three to five years and contain one to two renewal options. Before a new site is selected, management reviews demographic information regarding the median income, housing and other factors that affect the buying patterns for potential rental purchase customers primarily within a five mile radius for urban locations and up to 30 miles for rural locations of a potential site. Store locations are selected based upon management's analysis of such demographic information, location of competitors, customer traffic for the site, accessibility and cost. Stores are typically located in or near low to middle income neighborhoods, usually in strip shopping centers which contain a large anchor tenant and other suitable tenants. Rent-A-Center estimates that the average investment with respect to opening a new store is approximately \$350,000 of which rental merchandise comprises approximately 80% of the investment. The remaining investment consists of leasehold improvements, furnishings and fixtures, computer equipment, store signs and start-up costs. Newly opened stores historically have become profitable after approximately six months. Management believes that suitable store space is generally available for lease and that Rent-A-Center would be able to relocate any of its stores without significant difficulty should it be unable to renew a particular lease. Management also expects that additional space will be readily available at competitive rates in the event Rent-A-Center desires to open new stores.

## PRODUCT SELECTION

Rent-A-Center's stores offer merchandise from three basic product categories: home electronics, appliances and furniture and accessories. Management's policy is to ensure that its stores maintain sufficient inventory to provide a wide variety of high quality merchandise to its customers and emphasizes products from a core group of brand-name manufacturers. Choices of merchandise reflect management's belief that customers want to rent the same quality of merchandise that is available from more traditional retailers and that customers are willing to pay for value and quality. In addition, by focusing on its manufacturers' premium quality products, Rent-A-Center seeks to avoid frequent service problems associated with inferior products. During 1997, home electronic products accounted for approximately 46%, appliances for 24% and furniture and accessories for 30% of Rent-A-Center's store revenue. Management believes the effect of this product mix and its focus on "higher end" products results in its favorable profit margin relative to its competitors.

The general product mix in Rent-A-Center's stores is determined by senior management, based on an analysis of customer rental patterns and the introduction of new products on a test basis. Individual store managers are responsible for determining the particular product selection for their store from the list of products approved by senior management. Customers may request either new merchandise or previously rented merchandise. Previously rented merchandise is offered at the same weekly or monthly rental rate as is offered for new merchandise, but with an opportunity to obtain ownership of the merchandise after fewer rental payments. In order to achieve gross margins consistent with its mature stores, Rent-A-Center standardizes inventory in each of its acquired stores.

On average, Thorn Americas' stores offered approximately 1,000 stock keeping units, as compared to approximately 100 stock keeping units offered by the Rent-A-Center stores. This greater number of product offerings is achieved in part through the use of an in-store catalog. Merchandise is offered from the same three basic product categories: home electronics, appliances and furniture and accessories, as well as computers, pagers, cellular phones and jewelry. Historically, Rent-A-Center has elected not to rent certain of these merchandise categories, such as pagers, cellular phones and jewelry. Management believes these products do not produce enough volume to justify their relatively lower margins. Moreover, with pagers and cellular phones, revenue is generated primarily from the sale of air time rather than from the rental of the hardware. As part of the integration process, Rent-A-Center is in the process of standardizing the inventory in each of the Thorn Americas stores.

**Home Electronics.** Home electronic products offered by Rent-A-Center's stores include televisions, video cassette recorders and stereos. Rent-A-Center offers home electronics merchandise from top brand manufacturers such as Magnavox, Sony, JVC and Technics, with weekly rental prices in this product category ranging from approximately \$9.99 to \$45.99 per item.

**Appliances.** Rent-A-Center rents major appliances manufactured by Whirlpool, General Electric and Kenmore, including refrigerators, washing machines, dryers, microwave ovens, freezers and ranges, with weekly rental prices in this product category ranging from approximately \$9.99 to \$29.99 per item.

Furniture and Accessories. Rent-A-Center offers a variety of furniture products, including dining room, living room and bedroom furniture featuring a number of styles, materials and colors. Showroom displays enable customers to visualize how the product will look in their homes and provide a showcase for accessories. Rent-A-Center offers furniture made by Ashley, England-Corsair, La-Z-Boy and other top brand manufacturers, with weekly rental prices in this product category ranging from approximately \$5.99 to \$35.99. Accessories such as pictures, plants, lamps and tables are typically rented as part of a package of items to furnish a complete room. Rental rates for accessories vary widely and are often determined based upon the rental rates of the other items in the package.

Computers. Thorn Americas began the rental of computers in 1993 and Rent-A-Center is considering adding computers to its product offering. As new generations of computers become available, Thorn Americas reduced the rental rates and/or rental terms on older models. This makes the computers affordable to a customer base that would otherwise be unwilling or unable to afford the higher rates for the new units. Store associates receive training in marketing personal computers. Major computer brands in this category include Packard Bell and Epson. Weekly rental rates for computers range from \$34.99 to \$39.99.

#### PURCHASING AND DISTRIBUTION

Specific purchasing decisions for Rent-A-Center's stores are made by store managers, subject to review by headquarters management. Rent-A-Center does not maintain any warehouse space. All merchandise is shipped by vendors directly to each store, typically within two to six days for electronics and appliances and one to two weeks for furniture, where it is held for rental. Rent-A-Center purchases the majority of its merchandise directly from manufacturers. Rent-A-Center's largest suppliers include Magnavox and Whirlpool, which accounted for approximately 21.7% and 21.6%, respectively, of merchandise purchased for Rent-A-Center's stores in 1997. No other supplier accounted for more than 10% of merchandise purchased by Rent-A-Center during such period. Rent-A-Center generally does not enter into written contracts with its suppliers. Although Rent-A-Center currently expects to continue relationships with its existing suppliers, management believes there are numerous sources of products available to Rent-A-Center, and does not believe that the success of its operations is dependent on any one or more of its present suppliers.

In contrast to Rent-A-Center's strategy of direct-to-store delivery, Thorn Americas previously maintained a nationwide network of seven distribution centers. These distribution centers consisted of warehouses, all of which were leased, ranging in size from 87,000 to 215,000 square feet, averaging approximately 135,000 square feet, and had the capacity to distribute to an average of approximately 300 stores each. Thorn Americas utilized a fleet of 171 trucks to distribute its products through its distribution system, delivering merchandise to its stores once a week in the holiday season and once every two weeks in the off-peak season. Expenses incurred to operate this distribution network were \$23.5 million for the fiscal year ended March 31, 1998. As part of the integration process, Rent-A-Center closed down the Thorn Americas distribution system.

## THE RENTAL PROCESS

Marketing. Rent-A-Center uses advertising to introduce and reinforce the benefits of its rental-purchase program to existing and potential customers as well as to make such customers aware of new products and special promotions. Rent-A-Center's advertisements emphasize such features as product and brand name selection, prompt delivery and the absence of any initial deposit, credit investigation or long-term obligation. Rent-A-Center focuses on direct mail advertising, and to a lesser extent television, radio and secondary print advertising. Direct mail is used extensively because it allows Rent-A-Center to target specific zip codes near its stores and those areas where potential customers reside. On average, Rent-A-Center distributes approximately 8 million color flyers per month by direct mail. As a percentage of store revenues, Rent-A-Center spent 4.7% in its most recent fiscal year on advertising. As Rent-A-Center acquires or opens new stores in its existing market areas, it realizes certain efficiencies by listing all stores in the same market-wide advertisement.

Rental-Purchase Agreement. In general, Rent-A-Center and Thorn Americas utilized substantially similar rental purchase agreements and screening processes. Rent-A-Center retains title to the merchandise during the term of the rental purchase agreement. The term required for ownership of new products on initial rental is 12 to 36 months depending on the product category. The contract also provides the customer with an early purchase option. On average, however, ownership requirements are met on less than 25% of items being rented for the first time. During 1997, the average actual term of Rent-A-Center's rental purchase agreements was approximately 4.3 months. Actual rental periods vary based on the type of merchandise rented: consumer electronics products have an average actual rental period of 3.8 months, while appliances and furniture are generally rented for longer periods with an average actual rental period of 5.2 and 4.6 months, respectively.

Rent-A-Center strives to make the rental-purchase transaction as simple and as accessible as possible for the customer. An agreement is intended to be straightforward and understandable and includes the total amount required to be paid for ownership of the merchandise, as well as all other required disclosures. If a customer elects to continue to rent the merchandise, the customer pays the next period's rental. If a customer elects to terminate an agreement, Rent-A-Center will pick up the merchandise or the merchandise will be returned by the customer and in either case, will be held by Rent-A-Center for re-rental. A customer may purchase a rented product at any time for a price based on a predetermined formula.

Approval Process. Although Rent-A-Center does not conduct a formal credit review, its order approval process provides a mechanism for qualifying a customer. This process is designed to verify a customer's financial ability to meet weekly or monthly payments and to ensure store personnel will be able to locate the merchandise should the customer's account become past due. Rent-A-Center's qualification process consists of obtaining the customer's name, address, landlord or mortgage holder, source of income and personal references. Information is verified over the telephone by store personnel contacting the personal references and other sources. Generally, Rent-A-Center will verify employment and residence status. Since merchandise is rented rather than purchased, Rent-A-Center focuses on a customer's credibility, not the customer's credit history. If a customer does not pay promptly, the rent-to-own merchandise is simply returned or picked up. The approval process is designed to be completed within an hour.



Product Delivery. Rent-A-Center offers same day or 24-hour delivery and installation of its merchandise at no additional cost to the customer. While providing value to the customers, delivery of the merchandise provides Rent-A-Center with further confirmation of the information provided in the customer's rental order and better inventory control. As an additional service to the customer, Rent-A-Center provides free pick-up should the customer wish to terminate the rental agreement.

Repair. Through the network of 22 service centers previously utilized by Thorn Americas and acquired pursuant to the Thorn Americas acquisition, Rent-A-Center also provides any required service or repair of merchandise without additional charge, except for damage in excess of normal wear and tear. If the product cannot be repaired at the customer's residence, Rent-A-Center provides a temporary replacement while the product is being repaired. The customer is fully liable for damage, loss or destruction of the merchandise, unless the customer purchases an optional loss/damage waiver. Most of the products offered by Rent-A-Center are covered by a manufacturer's warranty for varying periods, which, subject to the terms of the warranty, is transferred to the customer in the event that the customer obtains ownership.

Collections. Management believes that good collections practices are critical to Rent-A-Center's success in the rent-to-own industry. Management believes its strict and disciplined approach to collections results in increased collected revenue and ultimately enhances its long term relationships with its customers. Once a customer accepts delivery of merchandise, the next priority is to encourage the customer to continue renting the merchandise while making all payments in a timely manner. The goal is to treat each customer with respect and dignity. Store managers use a computerized management information system to track cash collections on a daily basis. Most rental-purchase payments are made on or near the due date, with little or no collection efforts by Rent-A-Center and are made in cash and in person. Having customers deliver payments in person affords Rent-A-Center an opportunity to further develop its customer relationships and market additional merchandise. On average, 93.5% of all Rent-A-Center's accounts are collected within seven days of their respective due dates.

In the event a customer fails to make a rental payment when due, store management will attempt to contact the customer to obtain payment and reinstate the contract or will terminate the account and arrange to regain possession of the merchandise. Rent-A-Center attempts to recover the rental items by the seventh to tenth day following termination or default of a rental purchase agreement. Depending on state regulatory requirements, Rent-A-Center charges for the reinstatement of terminated accounts or collects a delinquent account fee. It also collects loss/damage waiver fees from customers desiring such product protection in the case of theft and certain natural disasters. Such fees are standard in the industry and may be subject to government-specified limits. See "-- Government Regulation." Rent-A-Center's policy is to charge-off accounts within 90 days of becoming past due. Rent-A-Center's charge-offs due to lost or stolen merchandise, expressed as a percentage of store revenues, were approximately 2.1% in 1997, as compared to approximately 2.3% in 1996. Thorn Americas' charge-offs were approximately 2.3% in 1997, as compared to approximately 2.4% in 1996. These percentages compare to an industry average of 2.9% in 1997 for chains of 20 stores or more.

## STORE OPERATIONS

Rent-A-Center employs a decentralized management organization, delegating significant responsibility to its store and field managers and emphasizing results-oriented compensation directly tied to store profitability and/or growth in store revenue. A typical mature store has a store manager, an assistant manager, and two or three account executives. Each store is responsible for its operations including customer relations, credit management, delivery and pickup of merchandise, inventory management, staffing and certain marketing efforts. Account executives make deliveries, monitor accounts, secure timely rental payments and pick up rental merchandise, as necessary.

Rent-A-Center's philosophy is to treat store managers as "owners" of their stores. At the end of each year, store managers prepare projections for the upcoming year that must be approved by executive officers and senior management. Each month actual results are compared to projected results, and managers must be able to explain significant discrepancies. Because up to 30% of the compensation of the managers of mature stores is based on profitability, store managers are attentive to their store's financial statements and play an active role in the analysis of store performance.

The latitude granted to Rent-A-Center's store managers is a key to manager accountability. Unless inventory units not rented within the last 90 days exceed acceptable levels, no approval by Rent-A-Center's senior management is required to order merchandise from Rent-A-Center's approved vendor list. Rent-A-Center has idle inventory standards that are closely monitored and designed to provide for adequate display merchandise without building up excess inventory. All of these factors help keep store inventory as low as possible while maintaining sufficient quantities for store displays and customer deliveries.

As part of the integration process, Rent-A-Center reallocated its resources to add the assistant manager position in the Thorn Americas stores. Management believes the assistant manager is a critical position in increasing store depth as it adds additional support for the store manager and develops management backup. In addition, Rent-A-Center increased the salaries of Thorn Americas' entry level employees to the level paid by Rent-A-Center, as it believes the higher wages paid by Rent-A-Center allows it to attract and retain stronger, more efficient employees.

## REGIONAL MANAGEMENT

Each store manager reports to a market manager who typically oversees seven to nine stores. Market managers are primarily responsible for monitoring individual store performance and inventory levels within their respective regions. Rent-A-Center's approximately 265 market managers, in turn, report to 41 regional directors, who monitor the operations of approximately six regions, and, through the market managers, individual store performance. The regional directors report to Rent-A-Center's senior management and together, the regional directors and senior management direct and coordinate purchasing, financial planning and controls, employee training, personnel matters and new store site selection. Despite Rent-A-Center's decentralized structure, senior management closely monitors operations by examining store-level performance on a daily basis through Rent-A-Center's management information system and frequent on-site reviews. As part of the integration process, Rent-A-Center reorganized Thorn Americas' field reporting structure and aligned its compensation plans to conform to the structure employed by

Rent-A-Center. Up to 30% of all market manager compensation at Rent-A-Center is tied directly to store revenue and/or operating profit.

#### RECRUITMENT, RETENTION AND TRAINING

Rent-A-Center places great importance on recruiting and training quality personnel and believes that its managers are among the best in the industry. As part of its recruiting process, each prospective store employee is administered an examination to determine his or her managerial abilities. In order to attract and retain quality personnel, Rent-A-Center generally pays its entry level employees more than the industry average and provides competitive benefits packages. In order to become a store manager, a candidate must have experience working in Rent-A-Center system and be selected by regional and senior management and complete the management training program. In order to be promoted to regional manager, a candidate must have previously served as a store manager.

Rent-A-Center conducts an annual managers' meeting at a central location attended by store managers, regional managers, regional vice presidents and executive management. At such sessions, prior performance is critiqued, operating procedures are reviewed and revised, new merchandise is showcased and managers receive classroom training in the areas of financial management, product information, inventory management, customer service, credit management and other areas of store operations.

#### MANAGEMENT INFORMATION SYSTEMS

Utilizing Rent-A-Center's management information system, executive management, regional managers and store managers can closely monitor the productivity of stores under their supervision as compared to prescribed guidelines. This system provides Rent-A-Center's management with access to operating and financial information about each store location and region, and generates management reports on a daily, weekly, month-to-date and year-to-date basis for each unit of merchandise and every rental purchase transaction. The reports for all stores are reviewed daily by senior management and any irregularities are addressed the following business day. Each store is equipped with a computer system that tracks individual components of revenue, each item in idle and rented inventory, total items on rent, delinquent accounts and other account information. In addition, Rent-A-Center's computer system maintains all standard agreements, which are printed off the system on an as-needed basis at each store. All documents including standard agreements, sales material and collection material have been pre-formatted. Rent-A-Center has only five employees in its management information system department as it outsources the maintenance and software development to an outside vendor.

#### COMPETITION

The rent-to-own industry is highly competitive. Rent-A-Center is the largest rent-to-own operator with 2,126 stores as well as the largest franchisor with 324 stores. The five largest industry participants account for only 38.5% of the approximately 8,300 rent-to-own stores in the United States. Rent-A-Center's stores compete with other rent-to-own businesses, as well as with rental stores that do not offer their customers a purchase option. With respect to customers desiring to purchase merchandise for cash or on credit, Rent-A-Center also competes with department stores and discount stores. Competition is based primarily on

store location, product selection and availability, customer service and rental rates and terms.

#### FRANCHISE OPERATIONS

ColorTyme is the largest nationwide rent-to-own franchisor with 300 stores in 39 states. In addition, Thorn Americas has 24 franchise stores in 4 states.

All ColorTyme franchised stores use ColorTyme's trade names, service marks, trademarks, logos, emblems and indicia of origin and operate under distinctive operating procedures and standards specified by ColorTyme. ColorTyme's primary source of revenue is the sale of rental equipment to its franchisees, who, in turn, offer the equipment to the general public for rent or purchase under a rent-to-own program. As franchisor, ColorTyme receives royalties of 2.3% to 4.0% of the franchisees' rental income and, generally, an initial fee of \$7,500 per location for existing franchisees and up to \$25,000 per location for new franchisees.

ColorTyme has established a national advertising fund for the franchised stores, whereby ColorTyme has the right to collect up to 3% of the monthly gross rental payments and sales from each franchisee to be contributed to the fund. Currently, ColorTyme has set the monthly franchisee contribution at \$250 per store per month. ColorTyme directs the advertising programs of the fund, generally consisting of advertising in print, television and radio. Furthermore, the franchisees are required to expend 3% of their monthly gross rental payments and sales on local advertising.

Rent-A-Center has 24 franchised locations operating under the Rent-A-Center name. As franchisor, Rent-A-Center receives royalties of up to 3% of gross receipts and a fee of \$25,000 per location. Additionally, franchisees can purchase merchandise through Rent-A-Center with no mark-up. Rent-A-Center franchisees pay substantially the same amount for advertising as the ColorTyme stores.

#### EMPLOYEES

As of December 31, 1998, Rent-A-Center had approximately 10,613 employees, of whom approximately 360 were assigned to Rent-A-Center's headquarters and the remainder of whom were directly involved in the management and operation of Rent-A-Center's stores. As of the same date, ColorTyme had approximately 18 employees, all of which were employed full-time. None of Rent-A-Center's employees are covered by a collective bargaining agreement.

#### PROPERTIES

Rent-A-Center. Rent-A-Center leases space for all of its retail stores, as well as its corporate and regional offices, under operating leases. Most of these leases are for terms of 3 to 5 years and contain renewal options for an additional one or two terms at rental rates adjusted according to agreed upon formulas. In November 1998, Rent-A-Center moved its headquarters to 5700 Tennyson Parkway, Plano, Texas. The new headquarters consist of approximately 82,274 square feet and is the home office for all of Rent-A-Center's operations. The Thorn Americas operations were moved to the new headquarters from

Thorn Americas' Wichita, Kansas office in December 1998. Rent-A-Center intends to dispose of the former headquarters of Thorn Americas.

ColorTyme. ColorTyme's headquarters are located at 1231 Greenway Drive in Irving, Texas, and consist of approximately 9,600 square feet. It is anticipated that ColorTyme will relocate to the new headquarters in January 1999.

#### GOVERNMENT REGULATION

##### State Regulation

There are currently 45 states that have legislation regulating rental purchase transactions. With some variations in individual states, most state legislation requires the lessor to make prescribed disclosures to customers about the rental purchase agreement and transaction, and provides time periods during which customers may reinstate agreements. Some state rental purchase laws prescribe grace periods for nonpayment, prohibit or limit certain types of collection or other practices, and limit certain fees that may be charged. Nine states limit the total rental payments that can be charged. Such limitations, however, do not become applicable in general unless the total rental payments required under agreements exceed 2 times to 2.4 times of the "disclosed cash price" or the retail value.

Minnesota and, more recently, New Jersey have had lower court decisions which treat rental purchase transactions as credit sales subject to consumer lending restrictions. In response, Rent-A-Center has developed and utilizes rent-to-rent agreements, with certain variations, in both Wisconsin and Minnesota.

Alaska, Montana, North Carolina, Puerto Rico and the District of Columbia have no rental purchase legislation. However, the retail installment sales statute in North Carolina recognizes that rental purchase transactions which provide for more than a nominal purchase price at the end of the agreed rental period are not credit sales under such statute. Rent-A-Center operates 23 stores in the remaining jurisdictions, excluding North Carolina, which have no rental purchase legislation.

There can be no assurance that new or revised rental purchase laws will not be enacted or, if enacted, that such laws would not have a material adverse effect on Rent-A-Center. See "Risk Factors -- Passage of Adverse Government Regulation Impacting the Rent-to-Own Industry."

##### Federal Legislation

No comprehensive federal legislation has been enacted regulating or otherwise impacting the rental-purchase transaction. From time to time, legislation has been introduced in Congress that would regulate the rental-purchase transaction, including legislation that would subject the rental-purchase transaction to interest rate, finance charge and fee limitations, as well as the Federal Truth in Lending Act. Any such federal legislation, if enacted, could have a material adverse effect on Rent-A-Center. See "Risk Factors -- Passage of Adverse Government Regulation Impacting the Rent-to-Own Industry."

## LEGAL PROCEEDINGS

From time to time, Rent-A-Center, along with its subsidiaries, is party to various legal proceedings arising in the ordinary course of business. The majority of the material proceedings involve claims that may be generally characterized into one of two categories, recharacterization claims and statutory compliance claims. Recharacterization claims generally involve claims

- - in states that do not have rent-to-own legislation,
- - that rent-to-own transactions are disguised installment sales in violation of applicable state installment statutes, and
- - that allege greater damages.

Statutory compliance claims generally involve claims

- - in states that have rent-to-own legislation,
- - that the operator failed to comply with applicable state rental purchase statutes, such as notices and late fees, and
- - that allege lesser damages.

Except as described below, Rent-A-Center is not currently a party to any material litigation.

The following litigation matters were assumed with Thorn Americas pursuant to the Thorn Americas acquisition. In connection with accounting for the Thorn Americas acquisition, Rent-A-Center made appropriate purchase accounting adjustments for contingent liabilities associated with outstanding litigation.

Robinson v. Thorn Americas, Inc. The plaintiffs filed this class action on April 19, 1994 in state court in New Jersey. The class consists of all residents of New Jersey who are or have been parties to Thorn Americas rent-to-own contracts since April 19, 1988. During this period, Thorn Americas operated approximately 23 stores in New Jersey. The plaintiffs' claims are for alleged violations of the New Jersey Retail Installment Sales Act and the New Jersey Consumer Fraud Act, usury, unlawful contractual penalty and conversion. On January 5, 1998, the court entered a judgment against Thorn Americas and ordered Thorn Americas to pay the plaintiffs the amount equal to (A) all reinstatement fees collected by Thorn Americas since April 29, 1988, and (B) 40% of all rental revenue collected by Thorn Americas from the plaintiffs from April 29, 1988, trebled. Later, the court added an incentive award to the class representative, the inclusion of attorneys' fees, and granted plaintiff's counsel 25% of the amount to be distributed to the class. The judgment is secured by a supersedeas bond posted by Thorn Americas in the amount of \$163 million, which amount was derived from an accounting by plaintiffs of the projected amount of the judgment liability through April 1999. Thorn Americas filed its notice of appeal on January 26, 1998 and the appeal is now fully briefed. In December 1998, Rent-A-Center settled this matter in principle for approximately \$48.5 million, subject to preliminary and final approval of the court. The final settlement documents are currently being negotiated. Rent-A-Center anticipates that the execution of these settlement documents and the preliminary approval of the court will occur in January 1999.

Burney v. Thorn Americas, Inc. The plaintiffs originally filed a class action in federal court in Wisconsin alleging Thorn Americas' rent-to-own contracts violated the Wisconsin Consumer Act and federal RICO and truth-in-lending statutes. The court first granted the plaintiffs' motion for summary judgment as to liability under the Wisconsin Consumer Act. The court then withdrew that decision and dismissed the action for lack of federal subject matter jurisdiction once the plaintiffs withdrew their federal claims. The plaintiffs' refiled the action on February 28, 1997 in state court in Wisconsin, and the court granted plaintiffs' motion for class certification on July 7, 1998. The class is comprised of the persons who were party to rent-to-own contracts with Thorn Americas in Wisconsin after October 19, 1988 and who have paid RAC an amount equal to or greater than the value of the merchandise. During this period, Thorn Americas operated approximately 23 stores in Wisconsin. The plaintiffs have asserted that the value of the merchandise for class certification purposes is 60% of the amount required to obtain ownership. This limitation on the members of the class distinguishes Burney from Robinson. Rent-A-Center settled this matter for \$16.25 million, subject to final approval by the court. The court has preliminarily approved the settlement and notices to class members are being prepared. A fairness hearing has been scheduled for early February 1999, at which time final court approval is expected.

Colon v. Thorn Americas, Inc. The plaintiffs filed this class action in November 1997 in New York state court. Thorn Americas removed the case to the U.S. District Court for the Southern District of New York. Plaintiffs filed a motion to remand, which was granted. The plaintiffs acknowledge that rent-to-own transactions in New York are subject to the provisions of New York's Rental Purchase Statute but contend the Rental Purchase Statute does not provide Thorn Americas immunity from suit for other statutory violations. Plaintiffs allege Thorn Americas has a duty to disclose "effective interest" under New York consumer protection laws, and seek damages and injunctive relief for Thorn Americas' failure to do so. In their prayers for relief, the plaintiffs have requested the following:

- - class certification,
- - injunctive relief requiring Thorn Americas to (A) cease certain marketing practices, (B) price their rental purchase contracts in certain ways, and (C) disclose effective interest,
- - 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.

This suit also alleges violations relating to late fees, harassment, undisclosed charges, and the ease of use and accuracy of its payment records. The plaintiffs did not specify a specific amount on their damages request.

The proposed class includes all New York residents who were party to Thorn Americas rent-to-own contracts from November 26, 1991 through November 26, 1997. Rent-A-Center is vigorously defending this action and on September 24, 1998, filed motions to deny class certification and dismiss the complaint. However, there can be no assurance that such motions will be granted or that Rent-A-Center will be found not to have any liability.

Anslono v. Thorn Americas, Inc. This is a putative class action filed in Massachusetts state court on January 6, 1998. Plaintiffs acknowledge that rent-to-own contracts constitute "consumer leases" under Massachusetts' rent-to-own statute, but contend that Thorn Americas failed to comply with certain statutory provisions and Thorn Americas failed to provide certain disclosures. Plaintiffs seek actual and statutory damages and an injunction to prohibit Thorn Americas from engaging in the acts complained of. Specifically, the plaintiffs have requested in their prayers for relief, the following:

- - class certification,
- - unspecified damages, together with an award of treble damages under Massachusetts law,
- - costs and expenses, including reasonable attorneys' fees,
- - injunctive relief, enjoining Thorn Americas from engaging in unfair or deceptive practices relating to certain advertising practices,
- - an order eliminating the plaintiffs' obligation to pay their final periodic rent-to-own installment payment, and
- - any other further relief that the plaintiffs may be entitled to.

The proposed class includes all Massachusetts residents who were parties to Thorn Americas' rent-to-own contracts in the four-year period prior to the January 6, 1998 filing. Rent-A-Center is vigorously defending this action. However, there can be no assurance that Rent-A-Center will be found not to have any liability.

Allen v. Thorn Americas, Inc. The plaintiffs filed August 15, 1997 a putative nationwide class action suit in federal court in Missouri, alleging that Thorn Americas has discriminated against African-Americans in its hiring, compensation, promotional and termination policies. Rent-A-Center has settled this matter in principle for approximately \$6.75 million.

Cooks v. Thorn Americas, Inc. The plaintiff filed a putative class action in Texas state court in 1993, alleging violations of Texas' usury statute, Deceptive Trade Practices Act and Insurance Code. In their prayers for relief, the plaintiffs have requested:

- - class certification,
- - unspecified compensatory damages in an amount less than \$50,000 per class member,
- - reasonable attorneys' fees,
- - costs of the suit,
- - pre- and post-judgment interest, and



- - other further relief, as the court may deem necessary or appropriate.

This case has been dormant since 1994. Rent-A-Center intends to defend this action should it once again become active. However, there can be no assurance that Rent-A-Center will be found not to have any liability.

In connection with the Thorn Americas acquisition, Thorn plc agreed to indemnify and hold harmless Rent-A-Center and Thorn Americas from the following two lawsuits and deposited \$40 million in escrow in respect of these two lawsuits and other indemnification claims that Rent-A-Center may have against Thorn plc.

Fogie v. Thorn Americas, Inc. The plaintiffs filed this class action on December 4, 1991 in Minnesota. The class consists of residents of Minnesota who entered rental purchase contracts with Thorn Americas from August 1, 1990 through November 30, 1996. The plaintiffs alleged that Thorn Americas' rent-to-own contracts violated Minnesota's Consumer Credit Sales Act and the Minnesota General Usury Statute. On April 15, 1998, the court entered a final judgment against Thorn Americas and ordered it to pay approximately \$30 million to the plaintiffs. Under certain provisions of the judgment, Thorn Americas may receive certain credits against the judgment. On May 15, 1998, Thorn Americas filed a notice of appeal from the damages finding only and is vigorously pursuing its appeal.

Willis v. Thorn Americas, Inc. The Willis action consolidated three separate but related actions, the first of which was filed in 1994, that cover the period from December 22, 1988 to September 9, 1996. The plaintiffs alleged that prior to Pennsylvania's enactment of rent-to-own legislation, Thorn Americas' rent-to-own contracts were actual installment sales contracts in violation of Pennsylvania law. Thorn Americas entered into a settlement agreement with the plaintiffs whereby Thorn Americas agreed to pay \$9,350,000. On July 8, 1998, the court approved the settlement and rebate checks have been sent to eligible members of the class.

The following litigation matters pending against Rent-A-Center have been settled in principal in connection with the settlement of the Robinson matter:

Gallagher v. Crown Leasing Corporation. On January 3, 1996, Rent-A-Center was served with a class action complaint adding it as a defendant in this action originally filed in April 1994 against Crown and certain of its affiliates in state court in New Jersey. The class consists of all New Jersey residents who entered into rent-to-own contracts with Crown between April 25, 1988 and April 20, 1995. During this period, Crown operated approximately 5 stores in New Jersey. The lawsuit alleges, among other things, that under certain rent-to-own contracts entered into between the plaintiff class and Crown, some of which were purportedly acquired by Rent-A-Center pursuant to the acquisition of Crown and certain of its affiliates, the defendants failed to make the necessary disclosures and charged the plaintiffs fees and expenses that violated the New Jersey Consumer Fraud Act and the New Jersey Retail Installment Sales Act. The plaintiffs seek damages including, among other things, a refund of all excessive fees and/or interest charged or collected by the defendants in violation of such acts, state usury laws and other related statutes and treble damages, as applicable. Pursuant to the Asset Purchase Agreement entered into between Crown, its controlling shareholder and Rent-A-Center in connection with the Crown acquisition, Rent-A-Center did not contractually assume any liabilities pertaining to Crown's rent-to-own contracts for the period prior to the acquisition of Crown. The

plaintiffs have obtained class certification and a summary judgment against Crown on the liability issues. Subsequent to these decisions by the New Jersey state court, Crown filed for protection from its creditors under Chapter 11 of the federal bankruptcy laws. The bankruptcy court allowed the lawsuit to proceed in New Jersey, where the state court granted summary judgment on the plaintiff's damages formula against Crown. The plaintiffs calculated actual damages for purposes of their summary judgment motion at approximately \$7.6 million. The court ruled that the plaintiffs are entitled to three times actual damages. However, the state court's ruling requires certain minor adjustments pursuant to an accounting. Together with the Boykin matter, Rent-A-Center settled this matter in principle for approximately \$11.5 million, subject to preliminary and final approval of the court. The final settlement documents are currently being negotiated. Rent-A-Center anticipates that the execution of these settlement documents and the preliminary approval of the court will occur in January 1999.

Michelle Newhouse v. Rent-A-Center, Inc./Handy Boykin v. Rent-A-Center, Inc. On November 26, 1997 a class action complaint was filed against Rent-A-Center by Michelle Newhouse in New Jersey state court alleging, among other things, that under certain rent-to-own contracts entered into between the plaintiffs and Rent-A-Center, Rent-A-Center failed to make the necessary disclosures and charged the plaintiffs fees and expenses that violated the New Jersey Consumer Fraud Act and the New Jersey Installment Sales Act. The claims arising from this action are similar to the claims made in Robinson v. Thorn Americas, Inc. and Gallagher v. Crown Leasing Corporation. The proposed class consists of all residents of New Jersey who are or have been parties to contracts to rent-to-own merchandise from Rent-A-Center within the past six years. During this period, Rent-A-Center operated approximately 17 stores in New Jersey.

Rent-A-Center removed the case to federal court on January 21, 1998, and was then advised by the plaintiffs' attorney that Michelle Newhouse no longer wished to serve as class representative. A motion to voluntarily dismiss the Newhouse case filed by the plaintiffs' attorney was granted shortly thereafter. However, on May 1, 1998, a new class action complaint against Rent-A-Center made by Handy Boykin was filed by the plaintiffs' attorney in the Newhouse matter in New Jersey state court alleging the same causes of action with the same proposed class as that of the Newhouse matter. This new filing essentially constitutes a replacement of the named plaintiff in the Newhouse matter with a new named plaintiff, Handy Boykin. Management anticipated such a replacement and is defending this matter vigorously. Rent-A-Center removed the Boykin case to federal court, where Boykin's motion to remand to New Jersey state court is now pending. Together with the Gallagher matter, Rent-A-Center settled this matter in principle for approximately \$11.5 million, subject to preliminary and final approval by the court. The final settlement documents are currently being negotiated. Rent-A-Center anticipates that the execution of these settlement documents and the preliminary approval of the court will occur in January 1999.

The settlements in Robinson, Gallagher and Boykin are contingent on one another.

## MANAGEMENT

## DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information with respect to the executive officers and directors of Rent-A-Center:

NAME ----	AGE ---	POSITION -----
J. Ernest Talley.....	63	Chairman of the Board of Directors and Chief Executive Officer
Mark E. Speese.....	41	President, Chief Operating Officer and Director
L. Dowell Arnette.....	51	Executive Vice President
Bradley W. Denison.....	38	Senior Vice President -- General Counsel
Anthony M. Doll.....	30	Senior Vice President
C. Edward Ford, III.....	31	Senior Vice President
Dana F. Goble.....	33	Senior Vice President
John H. Whitehead.....	48	Senior Vice President
David A. Kraemer.....	37	Senior Vice President
William C. Nutt.....	42	Senior Vice President
Thomas J. Lopez.....	39	Senior Vice President
Robert D. Davis.....	27	Vice President -- Finance, Chief Financial Officer and Treasurer
David M. Glasgow.....	30	Secretary
Mitchell E. Fadel.....	41	President and Chief Executive Officer of ColorTyme, Inc.
Joseph V. Mariner, Jr.....	78	Director
J.V. Lentell.....	60	Director
Rex W. Thompson.....	48	Director
Laurence M. Berg.....	32	Director
Peter P. Copses.....	40	Director

J. Ernest Talley. Mr. Talley has served as Chairman of the Board of Directors of Rent-A-Center since May 1989 and Chief Executive Officer since November 1994. Mr. Talley operated a rent-to-own business from 1963 to 1974 in Wichita, Kansas, which he sold to Remco (later acquired by Thorn Americas and acquired by Rent-A-Center as part of the Thorn Americas acquisition) in 1974. From 1974 to 1988, he was involved in the commercial real estate business in Dallas, Texas. Mr. Talley co-founded Talley Lease to Own, Inc. with his son, Michael C. Talley, in 1987 and served as a director and Chief Executive Officer of that company from 1988 until its merger with Rent-A-Center on January 1, 1995. Mr. Talley's term as a director expires at Rent-A-Center's 2001 annual meeting.

Mark E. Speese. Mr. Speese has served as President and a director of Rent-A-Center since 1990, and as Chief Operating Officer since November 1994. From Rent-A-Center's inception in 1986 until 1990, Mr. Speese served as a Vice President responsible for

Rent-A-Center's New Jersey operations. Prior to joining Rent-A-Center, Mr. Speese was a regional manager for Thorn Americas from 1979 to 1986. Mr. Speese's term as a director expires at Rent-A-Center's 1999 annual meeting.

L. Dowell Arnette. Mr. Arnette has served as an Executive Vice President of Rent-A-Center since September 1996. From May 1995 to September 1996, Mr. Arnette served as Senior Vice President of Rent-A-Center. From November 1994 to May 1995, he served as Regional Vice President of Rent-A-Center. From 1993 to November 1994, he served as a regional manager of Rent-A-Center responsible for the southeastern region. From 1975 until 1993, Mr. Arnette was an Executive Vice President of DEF Investments, Inc., an operator of rent-to-own stores. Rent-A-Center acquired substantially all of the assets of DEF and its subsidiaries in April 1993. Mr. Arnette is the brother of Joe T. Arnette, Vice President -- Training & Personnel of Rent-A-Center.

Bradley W. Denison. Mr. Denison was appointed Senior Vice President -- General Counsel of Rent-A-Center in September 1998. Between September 1996 and September 1998, Mr. Denison was Vice President and Assistant General Counsel for Thorn Americas, Inc. From August 1996 to September 1996, Mr. Denison served as Associate General Counsel for Thorn Americas, Inc. and from June 1994 until August 1996, served as Director and Chief Counsel for Thorn Americas, Inc. Prior to that time, Mr. Denison served as a Staff Attorney for Thorn Americas, Inc.

Anthony M. Doll. Mr. Doll was appointed Senior Vice President of Rent-A-Center in September 1998. From September 1996 until September 1998, Mr. Doll served as Regional Vice President of Rent-A-Center. Between May 1995 and September 1996, Mr. Doll served as Rent-A-Center's regional manager for the Detroit, Michigan area. From April 1993 to May 1995, Mr. Doll served as the manager of Rent-A-Center's stores in Michigan.

C. Edward Ford, III. Mr. Ford was appointed Senior Vice President of Rent-A-Center in September 1998. From January 1997 until September 1998, Mr. Ford served as a Regional Vice President of Rent-A-Center. Between November 1994 until January 1997, Mr. Ford served as a regional manager for Rent-A-Center for the Tennessee region. From July 1993 until November 1994, Mr. Ford served as a store manager for Rent-A-Center.

Dana F. Goble. Mr. Goble was appointed Senior Vice President of Rent-A-Center in December 1996 and served as a Regional Vice President of Rent-A-Center from May 1995 until December 1996. From April 1993 to May 1995, Mr. Goble served as regional manager for the Detroit, Michigan area.

John H. Whitehead. Mr. Whitehead was appointed Senior Vice President of Rent-A-Center in September 1997. Between May 1995 and September 1997, Mr. Whitehead served as a Regional Vice President for Rent-A-Center. From July 1993 to May 1995, Mr. Whitehead served as Rent-A-Center's regional manager for the Atlanta, Georgia area.

David A. Kraemer. Mr. Kraemer was appointed Senior Vice President of Rent-A-Center in September 1998. From December 1995 until September 1998, Mr. Kraemer served as a Regional Vice President for Rent-A-Center. Prior to that time, Mr. Kraemer served as a Divisional Vice President for MRT0 Holdings from November 1990 until Rent-A-Center acquired MRT0 Holdings in September 1995.

William C. Nutt. Mr. Nutt was appointed Senior Vice President of Rent-A-Center in May 1998. Between December 1995 until May 1998, Mr. Nutt served as a Regional Vice President for Rent-A-Center. From December 1992 through December 1995, Mr. Nutt served as Rent-A-Center's regional manager for the Northeast Ohio area.

Thomas J. Lopez. Mr. Lopez was appointed Senior Vice President in September 1998. Between December 1995 and September 1998, Mr. Lopez served as a Regional Vice President for Rent-A-Center. From April 1991 until Rent-A-Center acquired MRTO Holdings in September 1995, Mr. Lopez served as a Divisional Vice President for MRTO Holdings.

Robert D. Davis. Mr. Davis was appointed Chief Financial Officer, Vice President -- Finance and Treasurer in January 1999. Between September 1998 and January 1999, Mr. Davis served as Vice President -- Finance and Treasurer of Rent-A-Center. Between June 1997 and September 1998, Mr. Davis served as Treasurer of Rent-A-Center. From January 1997 until June 1997, Mr. Davis served as Rent-A-Center's Assistant Secretary and Treasurer. Between June 1995 and January 1997, Mr. Davis served as the Payroll Supervisor for Rent-A-Center and from June 1993 to June 1995 served as an accountant for Rent-A-Center.

David M. Glasgow. Mr. Glasgow has served as Secretary for Rent-A-Center since June 1995. Between June 1995 to June 1997, Mr. Glasgow served as Secretary and Treasurer for Rent-A-Center. From March 1995 to June 1995, Mr. Glasgow served as accounting operations supervisor and from June 1993 to March 1995, served as an accountant for Rent-A-Center.

Mitchell E. Fadel. Mr. Fadel has been President and Chief Executive Officer of ColorTyme since November 1992. ColorTyme was acquired by Rent-A-Center in May 1996.

Joseph V. Mariner, Jr. Mr. Mariner has served as a director of Rent-A-Center since February 1995. Until his retirement in 1978, Mr. Mariner served as Chairman of the Board of Directors and Chief Executive Officer of Hydrometals, Inc., a large conglomerate with subsidiaries engaged in the manufacture of retail plumbing supplies, nonpowered hand tools and electronic components. Mr. Mariner currently serves as a director of Temtex Industries, Inc., a manufacturer of energy efficient fireplaces and gas logs, Peerless Mfg. Co., a manufacturer of heavy oil and gas filtration equipment and Dyson Kissner Moran Corp., a New York based private investment company engaged in acquiring and operating a multitude of manufacturing companies with additional holdings in real estate. Mr. Mariner's term as a director expires at Rent-A-Center's 2000 annual meeting.

J.V. Lentell. Mr. Lentell has served as a director of Rent-A-Center since February 1995. Mr. Lentell was employed by Kansas State Bank & Trust Co., Wichita, Kansas, from 1966 through July 1993, serving as Chairman of the Board from 1981 through July 1993. Since July 1993, he has served as a director and Vice Chairman of the Board of Directors of Intrust Bank, N.A., successor by merger to Kansas State Bank & Trust Co. Mr. Lentell's term as a director expires at Rent-A-Center's 2000 annual meeting.

Rex W. Thompson. Mr. Thompson has served as a director of Rent-A-Center since February 1995. Since 1988, Mr. Thompson has served as a Professor of Finance at the Edwin L. Cox School of Business, Southern Methodist University, Dallas, Texas, where he

is the Collins Professor of Finance. Mr. Thompson previously served as department chair, and as an associate professor at the University of British Columbia and the Wharton School of Business. Mr. Thompson's term as a director expires at Rent-A-Center's 1999 annual meeting.

Laurence M. Berg. Mr. Berg was appointed a director of Rent-A-Center on August 5, 1998. Mr. Berg has been associated since 1992 and a principal since 1995 with Apollo Advisors, L.P., which together with its affiliates, acts as managing general partner of Apollo Investment Fund, L.P., AIF II, L.P., Apollo Investment Fund III, L.P., and Apollo Investment Fund IV, L.P. Mr. Berg is also a director of Paragon Health Network, Inc., Continental Graphics Holdings, Inc., CWT Specialty Stores, Inc. and Communications Corp. of America. Mr. Berg serves as one of Apollo's designees on Rent-A-Center's Board. Mr. Berg's term as a director expires at Rent-A-Center's 1999 annual meeting.

Peter P. Copses. Mr. Copses was appointed a director of Rent-A-Center on August 5, 1998. Mr. Copses has been a principal since 1990 of Apollo Advisors, L.P., which, together with its affiliates, acts as managing general partner of Apollo Investment Fund, L.P., AIF II, L.P., Apollo Investment Fund III, L.P. and Apollo Investment Fund IV, L.P. Mr. Copses is also a director of Paragon Health Network, Inc., Dominick Supermarkets, Inc., and Zale Corporation. Mr. Copses serves as one of Apollo's designees on Rent-A-Center's Board. Mr. Copses' term as a director expires at Rent-A-Center's 2001 annual meeting.

#### TERM AND COMPENSATION OF DIRECTORS

Rent-A-Center's Board of Directors is divided into three separate classes (Class I, Class II and Class III), with one class of directors elected at each annual meeting to serve a three year term. Each director elected serves in such capacity until the next annual meeting of the stockholders of Rent-A-Center where that class is re-elected or until their successors are duly elected and qualified. Directors that are not employees of Rent-A-Center (the "Outside Directors") each receive \$3,000 for each meeting of the Board of Directors that they attend and \$1,000 for attending a meeting of a committee of the Board of Directors. Automatic annual awards of fully-vested options to purchase 3,000 shares of Rent-A-Center's par value \$.01 per share common stock at the market price on the date of grant are made to each Outside Director on the first business day of each year. Each of Rent-A-Center's directors is reimbursed for any expenses incurred by such director in connection with such director's attendance at a meeting of the Board of Directors, or committee thereof. Directors receive no other compensation from Rent-A-Center for serving on the Board of Directors.

#### TERM OF EXECUTIVE OFFICERS

The Board of Directors names the officers of Rent-A-Center at the first board meeting following Rent-A-Center's annual meeting of stockholders. Each officer serves at the behest of the Board of Directors and until their successors are elected and appointed or until the earlier of their death, resignation or removal.

## COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has appointed (A) a Compensation Committee which consists of Messrs. Thompson, Lentell, Mariner and Copses, (B) an Audit Committee comprising Messrs. Mariner, Lentell, Thompson and Berg, and (C) a Finance Committee comprising Messrs. Talley, Lentell and Copses.

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

J.V. Lentell, a director of Rent-A-Center, serves as Vice Chairman of the Board of Directors of Intrust Bank, N.A., one of Rent-A-Center's lenders. Intrust Bank, N.A. was an \$18,000,000 participant in Rent-A-Center's prior credit facility and is a \$20,000,000 participant in the senior credit facilities. The prior credit facility was replaced by the senior credit facilities. In addition, Intrust Bank, N.A. serves as trustee of Company's 401(k) plan.

No executive officer of Rent-A-Center served as a member of the compensation or similar committee or Board of Directors of any other entity of which an executive officer served on the Compensation Committee or Board of Directors of Rent-A-Center.

## LIMITATION OF LIABILITY AND INDEMNIFICATION

As permitted by the Delaware General Corporation Law, Rent-A-Center has adopted provisions in its Certificate of Incorporation and Bylaws which provide for the indemnification of its directors and officers to the fullest extent permitted by applicable law. These provisions, among other things, indemnify each of Rent-A-Center's directors for certain expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by such director in any action or proceeding, including any action by or in the right of Rent-A-Center, on account of such director's service as a director of Rent-A-Center. In addition, Rent-A-Center maintains a customary directors' and officers' liability insurance policy covering its directors and officers. Rent-A-Center believes that these indemnification provisions are necessary to attract and retain qualified persons as directors.

## EXECUTIVE COMPENSATION

The following table summarizes the compensation for fiscal 1997, 1996 and 1995 for Rent-A-Center's Chief Executive Officer and each of its four other most highly compensated executive officers in fiscal 1997, referred to in total as the named executive officers:

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION		ANNUAL COMPENSATION(1)		LONG-TERM COMPENSATION	ALL OTHER COMPENSATION (\$)
		SALARY(\$)	BONUS(\$)	SECURITIES UNDERLYING OPTIONS(#)	
J. Ernest Talley.....	1997	\$250,000	\$ --	--	--
Chairman of the Board and	1996	240,000	--	--	--
Chief Executive Officer	1995	240,000	--	--	--
Mark E. Speese.....	1997	\$170,000	\$21,000	--	--
President and Chief	1996	160,000	16,000	--	--
Operating Officer	1995	150,000	10,000	--	--
Mitchell E. Fadel(2).....	1997	\$210,000	\$96,000	10,000(3)	--
President -- ColorTyme, Inc.	1996	210,000(2)	96,000	--	--
	1995	--	--	--	--
L. Dowell Arnette.....	1997	\$160,000	\$25,000	--	--
Executive Vice President	1996	150,000	16,000	--	--
	1995	132,000	23,000	15,000(4)	--
Dana F. Goble.....	1997	\$120,000	\$14,000	5,000(5)	--
Senior Vice President	1996	82,000	22,000	--	--
	1995	60,000	12,000	15,000(6)	--

- (1) The named executive officers did not receive any annual compensation not properly categorized as salary or bonus, except for certain perquisites or other benefits the aggregate cost of which did not exceed the lesser of \$50,000 or 10% of the total of annual salary and bonus for each such officer.
- (2) Mr. Fadel is President of ColorTyme, which was acquired by Rent-A-Center in May 1996. The amount presented for 1996 reflects the entire portion of his \$210,000 annual salary received in 1996, although only \$105,000 of such salary was paid to Mr. Fadel by Rent-A-Center.
- (3) These amounts represent options to purchase Rent-A-Center's common stock that were granted to Mr. Fadel in July 1996 and were outstanding as of December 31, 1996. Effective January 2, 1997, these options were canceled and Mr. Fadel was granted 10,000 new options to replace the options granted in 1996. The new options vest at 25% per year, beginning January 2, 1998.
- (4) In May 1995, Mr. Arnette was granted 15,000 options to purchase Rent-A-Center's common stock on a one-for-one basis, pursuant to Rent-A-Center's Long-Term Incentive Plan. The options vest over four years and expire 10 years from the date of the grant.
- (5) In January 1997, Mr. Goble was granted 5,000 options to purchase Rent-A-Center's common stock on a one-for-one basis, pursuant to Rent-A-Center's Long-Term Incentive Plan. The options vest over four years and expire 10 years from the date of the grant.
- (6) In May 1995, Mr. Goble was granted 15,000 options to purchase Rent-A-Center's common stock on a one-for-one basis, pursuant to Rent-A-Center's Long-Term Incentive Plan. The options vest over four years and expire 10 years from the date of the grant.



## OPTIONS GRANTED IN LAST FISCAL YEAR

The following table sets forth information concerning options granted during fiscal 1997 to each of the named executive officers. To date, no such options have been exercised.

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(2)	% OF TOTAL GRANTED IN FISCAL 1997	EXERCISE PRICE(3)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL STOCK PRICE APPRECIATION FOR OPTION TERM(1)	
					5%	10%
J. Ernest Talley.....	0	0	N/A	N/A	N/A	N/A
Mark E. Speese.....	0	0	N/A	N/A	N/A	N/A
Mitchell E. Fadel....	10,000(4)	1.16%	\$14.38	1/2/07	90,450	229,217
L. Dowell Arnette....	0	0	N/A	N/A	N/A	N/A
Dana F. Goble.....	5,000	0.58%	\$14.38	1/2/07	45,225	114,609

(1) These amounts represent certain assumed rates of appreciation only. Actual gains, if any, on stock option exercises are dependent on the future performance of Rent-A-Center's common stock and overall market conditions. There can be no assurance that the amounts reflected in this table will be achieved.

(2) Options are exercisable at 25% per year, beginning one year from the date of grant.

(3) The exercise price was fixed at the date of the grant and represented the fair market value per share of common stock on such date.

(4) These amounts represent the options that were granted to Mr. Fadel in July 1996 and were outstanding as of December 31, 1996. Effective January 2, 1997, these options were canceled and Mr. Fadel was granted 10,000 new options to replace the options granted in 1996. The new options vest at 25% per year, beginning January 2, 1998, have an exercise price of \$14.38 per share and expire on January 2, 2007.

## EMPLOYMENT AGREEMENTS

Rent-A-Center is a party to an employment agreement with Danny Z. Wilbanks, the former Senior Vice President -- Finance and Chief Financial Officer of Rent-A-Center. This employment agreement, dated March 28, 1997, named Mr. Wilbanks the Senior Vice President -- Finance and Chief Financial Officer of Rent-A-Center effective April 1, 1997. The employment agreement provided for Mr. Wilbanks' employment by Rent-A-Center for a two-year period commencing April 1, 1997, subject to earlier termination by Rent-A-Center or Mr. Wilbanks at any time for any reason, and for an annual salary of \$140,000 for the first year, with annual increases thereafter as authorized by Rent-A-Center's Board of Directors. Rent-A-Center and Mr. Wilbanks also entered into a stock option agreement pursuant to which Mr. Wilbanks received an option to purchase 60,000 shares of Rent-A-Center's common stock under Rent-A-Center's Long-Term Incentive Plan, at an exercise price of \$14.00 per share. Of the 60,000 options granted, 20,000 are currently exercisable, with the remaining options vesting over the remaining four-year period through the year 2002 on each anniversary date of the agreement. Mr. Wilbanks resigned his positions with Rent-A-Center in January 1999.

Rent-A-Center does not have employment agreements with any other executive officers.

## LONG-TERM INCENTIVE AND OTHER PLANS FOR EMPLOYEES

Long-Term Incentive Plan. Under Rent-A-Center's Long-Term Incentive Plan, designated officers, employees and directors are eligible to receive awards in the form of stock options, stock appreciation rights, restricted stock grants and cash awards. An aggregate of 4,500,000 shares of common stock is currently reserved for issuance under the Long-Term Incentive Plan, subject to adjustment in the event of a stock split, stock dividend or other change in the common stock or the capital structure of Rent-A-Center.

401(k) Savings Plan. Rent-A-Center maintains a defined contribution plan whereby after one year of service substantially all employees may defer a portion of their current salary, on a pre-tax basis, to the 401(k) Plan. Rent-A-Center may make discretionary matching contributions to the 401(k) Plan in an amount equal to a certain percentage of each participant's salary reduction contribution for the plan year. Rent-A-Center may also make a discretionary profit sharing contribution to the 401(k) Plan that is allocated to the participants based on a formula defined by the 401(k) Plan. Matching contributions made by Rent-A-Center for the plan year ended December 31, 1997 were twenty-five cents for every one dollar contributed through the first four percent of employee compensation. Discretionary contributions made by Rent-A-Center for the plan year ended December 31, 1997 were \$61,824. The trustee of the 401(k) Plan is Intrust Bank, N.A.

SECURITY OWNERSHIP OF  
CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of the voting securities of Rent-A-Center as of December 31, 1998, by (A) each person who is known to Rent-A-Center to be the beneficial owner of more than 5% or more of the outstanding voting securities of Rent-A-Center, (B) each director of Rent-A-Center, (C) each named executive officer, and (D) all executive officers and directors of the company as a group. Unless otherwise indicated, the persons named below have the sole power to vote and dispose of the shares of voting securities beneficially owned by them, subject to community property laws, where applicable.

NAME AND ADDRESS OF BENEFICIAL OWNER	SHARES OF COMMON STOCK BENEFICIALLY OWNED		SHARES OF SERIES A PREFERRED STOCK BENEFICIALLY OWNED	
	NUMBER	PERCENT OF CLASS	NUMBER	PERCENT OF CLASS
J. Ernest Talley(1).....	4,903,166(2)	19.56%	--	--
Mark E. Speese(1).....	2,288,432	9.13%	--	--
Montgomery Asset Management, LLC(3)....	1,818,600(4)	7.25%	--	--
L. Dowell Arnette.....	416,164(5)	1.66%	--	--
Mitchell E. Fadel.....	45,300(6)	*	--	--
Dana F. Goble.....	22,813(7)	*	--	--
J.V. Lentell.....	13,000(8)	*	--	--
Rex W. Thompson.....	12,000(8)	*	--	--
Joseph V. Mariner, Jr.....	5,842	*	--	--
Lawrence M. Berg(9).....	0	*	--	--
Peter P. Copses(9).....	0	*	--	--
Apollo(10).....	8,949,347	26.30%	260,000	100.0%
All officers and directors as a group (20 total).....	7,787,900	30.93%	--	--

\* Less than 1%.

(1) The address of J. Ernest Talley and Mark E. Speese is 5700 Tennyson Parkway Third Floor, Plano, Texas 75024.

(2) Does not include an aggregate of 326,184 shares owned by two of Mr. Talley's children, as to which Mr. Talley disclaims beneficial ownership.

(3) The address of Montgomery Asset Management, LLC is 101 California Street, San Francisco, California 94111.

(4) As of December 3, 1998.

(5) Includes 11,250 shares issuable pursuant to options granted under the Long-Term Incentive Plan, all of which are currently exercisable.

(6) Includes 5,000 shares issuable pursuant to options granted under the Long-Term Incentive Plan, all of which are currently exercisable.

(7) Includes 13,750 shares issuable pursuant to options granted under the Long-Term Incentive Plan, all of which are currently exercisable.

(8) These shares are issuable pursuant to options granted under the Long-Term Incentive Plan, all of which are currently exercisable.

(9) Messrs. Berg and Copses are each principals and officers of certain affiliates of Apollo. Accordingly, each of Messrs. Berg and Copses may be deemed to beneficially own shares owned by Apollo. Messrs. Berg and Copses disclaim beneficial ownership with respect to any such shares owned by Apollo.

(10) The address of Apollo is 1999 Avenue of the Stars, Suite 1900, Los Angeles, California 90067. The 8,949,347 shares of common stock represent the shares of common stock into which the Series A preferred stock is convertible. Apollo owns 250,000 shares of the Series A Preferred Stock, which represents in excess of 96% of the outstanding shares of the Series A Preferred Stock. Apollo also has the right to vote RCAC's 10,000 shares of Series A Preferred Stock. Apollo disclaims any beneficial ownership in these 10,000 shares other than its right to vote these shares.

## CERTAIN TRANSACTIONS OF RENT-A-CENTER

## CERTAIN BUSINESS RELATIONSHIPS

J.V. Lentell, a director of Rent-A-Center, serves as Vice Chairman of the Board of Directors of Intrust Bank, N.A., one of Rent-A-Center's lenders. Intrust Bank, N.A. was an \$18.0 million participant in Rent-A-Center's prior credit facility and is a \$20.0 million participant in the senior credit facilities. The prior credit facility was replaced by the senior credit facilities. In addition, Intrust Bank, N.A. serves as trustee of Rent-A-Center's 401(k) plan.

Mitchell E. Fadel, President of ColorTyme, owns approximately 13.5% of each of Portland II RAC, Inc. and Wilson Enterprises of Maine, Inc., both of which are franchisees of Rent-A-Center. As of October 13, 1998, Portland and Wilson collectively were indebted to Rent-A-Center for approximately \$31,000.

On August 5, 1998, affiliates of Apollo Management IV, L.P. purchased \$250 million of Rent-A-Center's preferred stock. Pursuant to the stock purchase agreement Rent-A-Center entered into with affiliates of Apollo Management IV, L.P., the affiliates of Apollo Management IV, L.P. are entitled to designate two individuals on Rent-A-Center's Board. Messrs. Berg and Copses currently serve as such designees on Rent-A-Center's Board.

## ACQUISITION OF TRANS TEXAS CAPITAL, L.L.C.

In February 1997, Rent-A-Center acquired fourteen stores in Texas from Trans Texas Capital, L.L.C. for approximately \$7.3 million in cash. Danny Z. Wilbanks, the former Senior Vice President -- Finance and Chief Financial Officer of Rent-A-Center, was the managing member of Trans Texas. At the time of this acquisition, Mr. Wilbanks was not an executive officer of Rent-A-Center.

## REPURCHASE OF \$25 MILLION OF RENT-A-CENTER'S COMMON STOCK

On August 18, 1998, Rent-A-Center repurchased 990,099 shares of its common stock for \$25 million from J. Ernest Talley, its Chairman of the Board and Chief Executive Officer. The repurchase of Mr. Talley's stock was approved by the Board of Directors of Rent-A-Center on August 5, 1998. The price was determined by a pricing committee made up of Joseph V. Mariner, Jr., J. V. Lentell and Rex W. Thompson and was approved by the Board of Directors of Rent-A-Center, with Mr. Talley abstaining. The pricing committee met on August 17, 1998, after the close of the markets, and Mr. Talley's shares were repurchased at the price of \$25.25 per share, the closing price of Rent-A-Center's common stock on August 17, 1998.

## DESCRIPTION OF CAPITAL STOCK

The following description of the capital stock of Rent-A-Center and certain provisions of Rent-A-Center's Amended and Restated Certificate of Incorporation and Rent-A-Center's Amended and Restated By-Laws is a summary and is qualified in its entirety by the provisions of the Certificate of Incorporation and By-Laws, copies of which have been filed as exhibits to Rent-A-Center's filings, from time to time, with the SEC.

As of December 31, 1998, the authorized capital stock of Rent-A-Center consisted of (A) 50,000,000 shares of common stock, par value \$.01 per share, of which 25,073,583 shares were outstanding, and (B) 5,000,000 shares of preferred stock, par value \$.01 per share, of which 260,000 shares were outstanding.

## COMMON STOCK

As of December 31, 1998, there were 25,073,583 shares of common stock outstanding held by approximately 75 record holders. The holders of common stock are entitled to one vote per share on all matters submitted to a vote of the stockholders. Cumulative voting of shares of common stock is prohibited. The holders of common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Board of Directors out of assets legally available therefor, subject to the payment of any preferential dividends and the setting aside of sinking funds or redemption accounts, if any, with respect to any preferred stock that from time to time may be outstanding. In the event of liquidation, dissolution or winding up of Rent-A-Center, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of the holders of any outstanding preferred stock. The holders of common stock have no preemptive or conversion rights or other subscription rights, and there are no redemption or sinking fund provisions applicable to the common stock. All of the outstanding shares of common stock are fully paid and nonassessable.

## PREFERRED STOCK

The Board of Directors of Rent-A-Center, without further action by the stockholders, is authorized to issue up to 5,000,000 shares of preferred stock in one or more series and to fix and determine as to any series any and all of the relative rights and preferences of shares in such series, including, without limitation, preferences, limitations or relative rights with respect to redemption rights, conversion rights, voting rights, dividend rights and preferences on liquidation.

## Convertible Preferred Stock

To finance a portion of the cost of the Thorn Americas acquisition, Rent-A-Center issued to certain affiliates of Apollo Management IV, L.P., 250,000 shares of convertible preferred stock at \$1,000 per share, resulting in aggregate proceeds to Rent-A-Center of \$250 million. In addition, Rent-A-Center issued to an affiliate of Bear, Stearns & Co. Inc. 10,000 shares of convertible preferred stock at \$1,000 per share contemporaneously with the offering of the old notes, resulting in aggregate proceeds to Rent-A-Center of \$10 million. The terms of the convertible preferred stock are summarized below.

Series A and Series B Preferred Stock. Rent-A-Center issued to certain affiliates of Apollo Management IV, L.P. 134,414 shares of Series A preferred stock and 115,586 shares of Series B preferred stock. Rent-A-Center issued to an affiliate of Bear, Stearns & Co. Inc. 5,377 shares of Series A preferred stock and 4,623 of Series B preferred stock. At a special meeting of the stockholders of Rent-A-Center held on October 20, 1998, the stockholders approved the conversion of the Series B preferred stock into Series A preferred stock. As a result, all of the issued and outstanding Series B preferred stock automatically converted to Series A preferred stock. Therefore, a total of 250,000 shares of Series A preferred stock is now held by certain affiliates of Apollo Management IV, L.P. and a total of 10,000 shares of Series A preferred stock is held by an affiliate of Bear, Stearns & Co. Inc.

Liquidation Preference. The Series A preferred stock has a liquidation preference of \$1,000 per share, plus all accrued and unpaid dividends. No distributions may be made to holders of common stock until the holders of the convertible preferred stock have received the liquidation preference.

Dividends. Holders of Series A preferred stock are entitled to receive quarterly dividends at the rate of \$37.50 per annum per share of Series A preferred stock. For the first five years, dividends on the convertible preferred stock may be paid, at the option of Rent-A-Center, in cash or in additional convertible preferred stock. For the four quarters beginning the ninth quarter following August 5, 1998, no dividend shall be paid or accrued on any share of Series A preferred stock for any quarter in which the average stock price for the fifteen consecutive trading days immediately preceding the payment date is equal to or greater than two times the conversion price, as defined below. For each quarter beginning the thirteenth quarter following August 5, 1998, no dividend shall be paid or accrued on any share of Series A preferred stock in any quarter in which the average stock price for the fifteen consecutive trading days immediately preceding the payment date is equal to or greater than the conversion price accumulated forward to the payment date at a compound annual growth rate of 25% per annum, compounded quarterly.

Conversion Price. Holders of Series A preferred stock may convert their shares of Series A preferred stock at any time into shares of Rent-A-Center's common stock at a price equal to \$27.935 per share.

Optional Redemption. The Series A preferred stock is not redeemable for four years; thereafter, Rent-A-Center may redeem all but one share of the Series A preferred stock at any time at 105% of the liquidation preference plus accrued and unpaid dividends. Certain affiliates of Apollo Management IV, L.P. may reserve from redemption one share of Series A preferred stock until such time as it and its permitted transferees, as defined in the Certificate of Designations, Preferences and Relative Rights and Limitations of Series A preferred stock of Rent-A-Center, Inc., shall own less than 33 1/3% of the shares, as defined immediately below initially issued to certain affiliates of Apollo Management IV, L.P. "Shares" is defined as shares of the common stock, both voting and non-voting, and the Series A preferred stock, and the preceding percentage shall be calculated as if each of the Shares had been exchanged or converted into shares of common stock immediately prior to the calculation regardless of the existence of any restrictions on such exchange or conversion.

Mandatory Redemption. Holders of convertible preferred stock have the right to require Rent-A-Center to redeem the convertible preferred stock on the earliest of a change of

control, the date upon which Rent-A-Center's common stock is not listed for trading on a United States national securities exchange or the Nasdaq National Market System or the eleventh anniversary of the issuance of the convertible preferred stock at a price equal to the liquidation preference of the convertible preferred stock.

Board Representation. Holders of Series A preferred stock are entitled to two seats on Rent-A-Center's Board of Directors.

Voting Rights. Holders of Series A preferred stock are entitled to vote on all matters presented to the holders of Rent-A-Center's common stock. The number of votes per share of Series A preferred stock shall be equal to the number of votes associated with the underlying voting common stock into which such Series A preferred stock is convertible.

#### CERTAIN ANTI-TAKEOVER MATTERS

Rent-A-Center's Amended and Restated By-Laws establish advance notice procedures with regard to stockholder proposals relating to the nomination of candidates for election as directors to be brought before meetings of stockholders of Rent-A-Center. These procedures provide that notice of such stockholder proposals must be timely given in writing to the secretary of Rent-A-Center prior to the meeting at which action is to be taken. Generally, to be timely, notice must be received at the principal executive offices of Rent-A-Center not less than 90 days prior to the anniversary date of the immediately preceding annual meeting of stockholders. Such notice must also contain certain information specified in Rent-A-Center's Amended and Restated By-Laws.

There are currently 5,000,000 authorized shares of preferred stock, of which 260,000 shares were outstanding as of December 31, 1998. The existence of authorized but unissued preferred stock may enable the Board of Directors to render more difficult or to discourage an attempt to obtain control of Rent-A-Center by means of a merger, tender offer, proxy consent or otherwise. For example, if in the due exercise of its fiduciary obligations, the Board of Directors were to determine that a takeover proposal is not in Rent-A-Center's best interests, the Board of Directors could cause shares of preferred stock to be issued without stockholder approval in one or more private offerings or other transactions that might dilute the voting or other rights of the proposed acquirer or insurgent stockholder or stockholder group or create a substantial voting block in institutional or other hands that might undertake to support the position of the incumbent Board of Directors. In this regard, the Amended and Restated Certificate of Incorporation grants the Board of Directors broad power to establish the rights and preferences of authorized and unissued preferred stock. The issuance of shares of preferred stock pursuant to the Board of Directors' authority described above could decrease the amount of earnings and assets available for distribution to holders of common stock and adversely affect the rights and powers, including voting rights, of such holders and may have the effect of delaying, deterring or preventing a change in control of Rent-A-Center. The Board of Directors does not currently intend to seek stockholder approval prior to any issuance of preferred stock, unless otherwise required by law.

Rent-A-Center is a Delaware corporation and is subject to Section 203 of the Delaware General Corporation Law. In general, subject to certain exceptions, Section 203 prohibits a Delaware corporation from engaging in a "business combination" with an "interested

stockholder" for a period of three years following the date that such stockholder became an interested stockholder, unless

- - prior to such date the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder, or
- - upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding for purposes of determining the number of shares outstanding those shares owned by (A) persons who are directors and also officers, and (B) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer), or
- - on or subsequent to such date the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder. Section 203 defines a "business combination" to include certain mergers, consolidations, asset sales and stock issuances and certain other transactions resulting in a financial benefit to an "interested stockholder." In addition, Section 203 defines an "interested stockholder" to include any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with such an entity or person.

#### LIMITATION OF LIABILITY

The Delaware General Corporation Law allows a Delaware corporation to limit a director's personal liability for monetary damages for breaches of certain fiduciary duties owed to the corporation and its stockholders. The Amended and Restated Certificate of Incorporation contains a provision that limits the liability of its directors for monetary damages for any breach of fiduciary duty as a director to the maximum extent permitted by the Delaware General Corporation Law. This provision, however, does not eliminate a director's liability

- - for any breach of the director's duty of loyalty to Rent-A-Center or its stockholders,
- - for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law,
- - for a transaction from which the director derived an improper personal benefit, or
- - in respect of certain unlawful dividend payments or stock purchases or redemptions.

The inclusion of this provision in the Amended and Restated Certificate of Incorporation may reduce the likelihood of derivative litigation against directors and may discourage or deter stockholders or management from bringing a lawsuit against directors for breaches of their fiduciary duties, even though such an action, if successful, might otherwise have benefited Rent-A-Center and its stockholders. This provision does not prevent Rent-A-Center or its stockholders from seeking injunctive relief or other equitable remedies against its directors under applicable state law, although there can be no assurance that such remedies, if sought, would be obtained.

#### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the common stock and the preferred stock is ChaseMellon Shareholder Services, L.L.C.



## DESCRIPTION OF OTHER INDEBTEDNESS

The description set forth below does not purport to be complete and is subject to, and qualified in its entirety by reference to, all of the provisions (including all of the definitions therein of terms not defined in this prospectus) of certain agreements setting forth the principal terms and conditions of Rent-A-Center's senior credit facility which is available upon request from Rent-A-Center.

## SENIOR SECURED CREDIT FACILITY

To assist in financing the Thorn Americas acquisition, Rent-A-Center obtained \$962.3 million in senior secured credit facilities, for which The Chase Manhattan Bank serves as administrative agent. Chase Securities Inc. acted as arranger. Comerica Bank serves as documentation agent. NationsBank, N.A. serves as syndication agent. The senior credit facilities consist of the following:

SENIOR FACILITIES	AMOUNT	TENOR	LIBOR SPREAD(1)
-----	-----	-----	-----
	(DOLLARS IN MILLIONS)		
Senior Revolving Credit Facility.....	\$120.0	6.0 years	225 bps
Letter of Credit/Multidraw Facility(2).....	122.3	6.0 years	225 bps
Senior Term Loan A Facility.....	120.0	6.0 years	225 bps
Senior Term Loan B Facility.....	270.0	7.5 years	250 bps
Senior Term Loan C Facility.....	330.0	8.5 years	275 bps
	-----		
Total Facilities.....	\$962.3		

(1) Pricing subject to a leverage-based pricing grid.

(2) The letter of credit/multidraw facility are included in funded debt for purposes of calculating covenants and the pricing grid.

The \$120.0 million 6.0 year revolving credit facility will be made available to Rent-A-Center for working capital and general corporate purposes, including acquisitions. The \$122.3 million 6.0 year letter of credit/multidraw facility has been initially used to post a letter of credit to support a \$163 million bond relating to certain New Jersey litigation, which has now been settled in principle. Once the letter of credit has been terminated, Rent-A-Center will be permitted to borrow up to \$85 million under the multidraw term loan facility. The \$720.0 million in term loan facilities, comprised of a \$120.0 million 6.0 year Series A facility, a \$270.0 million 7.5 year Series B facility, and a \$330.0 million 8.5 year Series C facility, was drawn at the closing of the Thorn Americas acquisition to fund Rent-A-Center's purchase of Thorn Americas' stock, refinance existing debt held by Rent-A-Center and to pay certain other costs associated with the Thorn Americas acquisition.

The senior credit facilities are secured by a perfected first priority security interest in substantially all of Rent-A-Center's tangible and intangible assets including intellectual property, real property, and the capital stock of Rent-A-Center's direct and indirect subsidiaries. The senior credit facilities are unconditionally guaranteed by each of Rent-A-Center's direct and indirect domestic subsidiaries. In addition, the senior credit facilities will be subject to several financial covenants, including (A) a maximum leverage ratio, (B) a minimum interest coverage ratio, and (C) a minimum fixed charge coverage ratio.

## DESCRIPTION OF THE NOTES AND GUARANTEES

You can find the definitions of certain terms used in this description under the subheading "Certain Definitions." In this description, the word "Rent-A-Center" refers only to Rent-A-Center and not to any of its subsidiaries.

The Company will issue the notes under an indenture among itself, the Subsidiary Guarantors and IBJ Whitehall Bank & Trust Company, as trustee. The terms of the notes include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939.

The following description is a summary of the material provisions of the indenture. It does not restate the indenture in its entirety. Although we believe that we have disclosed in this prospectus all the material provisions of the indenture, we urge you to read the indenture because it, and not this description, defines your rights as holders of these notes. We have filed copies of the indenture as an exhibit to the registration statement which includes this prospectus.

## BRIEF DESCRIPTION OF THE NOTES AND THE GUARANTEES

## THE NOTES

The notes:

- - are general obligations of Rent-A-Center;
- - are subordinated in right of payment to all existing and future Senior Indebtedness of Rent-A-Center;
- - are senior in right of payment to any future Subordinated Obligations of Rent-A-Center; and
- - are unconditionally guaranteed by the Subsidiary Guarantors.

As of December 31, 1998, Rent-A-Center and the Subsidiary Guarantors had total Senior Indebtedness of approximately \$630.7 million. As indicated above and as discussed in detail below under the subheading "Ranking," payments on the notes and under the Guarantees will be subordinated to the payment of Senior Indebtedness. The indenture will permit us and the Subsidiary Guarantors to incur additional Senior Indebtedness.

## THE GUARANTEES

The notes are guaranteed by the following subsidiaries of Rent-A-Center:

ColorTyme, Inc.  
Advantage Companies, Inc.

The Guarantees of the notes:

- - are general obligations of each Subsidiary Guarantor;
- - are subordinated in right of payment to all existing and future Senior Indebtedness of each Subsidiary Guarantor; and

- - are senior in right of payment to any future subordinated Indebtedness of each Subsidiary Guarantor.

#### PRINCIPAL, MATURITY AND INTEREST

Rent-A-Center will issue notes with a maximum aggregate principal amount of \$175 million. Rent-A-Center will issue notes in denominations of \$1,000 and integral multiples of \$1,000. The notes will mature on August 15, 2008.

Interest on the notes will accrue at the rate of 11% per annum and will be payable semi-annually in arrears on February 15 and August 15, beginning on February 15, 1999. Rent-A-Center will make each interest payment to the holders of record of these notes on the immediately preceding February 1 and August 1.

Interest on the notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

#### OPTIONAL REDEMPTION

The notes are redeemable, at Rent-A-Center's option, in whole or in part, at any time and from time to time on and after August 15, 2003 and prior to maturity. The notes may be redeemed at the following redemption prices, expressed as a percentage of principal amount, plus accrued interest, if any, to the redemption date, subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date, if redeemed during the 12-month period commencing on August 15 of the years set forth below:

PERIOD -----	REDEMPTION PRICE -----
2003.....	105.500%
2004.....	103.667%
2005.....	101.833%
2006 and thereafter.....	100.000%

In addition, prior to August 15, 2001, Rent-A-Center may on any one or more occasions redeem up to 33.33% of the original aggregate principal amount of the notes with the proceeds of one or more equity offerings by Rent-A-Center at a redemption price of 111% of the principal amount thereof, plus accrued interest, if any, to the redemption date. However, at least 66.67% of the original amount of the notes must remain outstanding after each such redemption. Any redemption under this provision must occur within 90 days following the closing of any such equity offering.

#### SELECTION AND NOTICE OF REDEMPTION

In the event that less than all of the notes are redeemed pursuant to an optional redemption, selection of the notes for redemption will be made by the Trustee on a pro rata basis, by lot or by such method as the trustee shall deem fair and appropriate. No notes of \$1,000 or less may be redeemed in part. Notices of redemption must be mailed by

first-class mail at least 30 but not more than 90 days before the redemption date to each holder of notes to be redeemed at the holder's registered address.

If any note is to be redeemed in part only, the notice of redemption that relates to such note must state the portion of the principal amount or principal amount at maturity, as the case may be, to be redeemed. A new note in a principal amount equal to the unredeemed portion will be issued in the name of the holder upon cancellation of the original note. On and after the redemption date, interest will cease to accrue on notes or portions thereof called for redemption as long as Rent-A-Center has deposited with the paying agent for the notes funds in satisfaction of the applicable redemption price pursuant to the indenture.

#### RANKING

The indebtedness evidenced by the notes:

- - is unsecured Senior Subordinated Indebtedness of Rent-A-Center,
- - is subordinated in right of payment, as set forth in the indenture, to the payment when due of all existing and future Senior Indebtedness of Rent-A-Center, including Rent-A-Center's Obligations under the Senior Credit Facility,
- - ranks without preference in right of payment with all existing and future Senior Subordinated Indebtedness of Rent-A-Center, and
- - is senior in right of payment to all existing and future Subordinated Obligations of Rent-A-Center.

The notes are also effectively subordinated to any Secured Indebtedness of Rent-A-Center and its Subsidiaries to the extent of the value of the assets securing such Indebtedness.

Although the indenture contains limitations on the amount of additional Indebtedness which Rent-A-Center may incur, under certain circumstances the amount of such indebtedness could be substantial and, in any case, such Indebtedness may be Senior Indebtedness. See "-- Certain Covenants -- Limitation on Indebtedness" below.

Rent-A-Center may not pay principal of, premium, if any, or interest on, the notes or make any deposit pursuant to the provisions described under "Defeasance" below and may not otherwise purchase, redeem or otherwise retire any notes (collectively, "pay the notes") if

- - any Senior Indebtedness is not paid when due in cash or Cash Equivalents, or
- - any other default on Senior Indebtedness occurs and the maturity of such Senior Indebtedness is accelerated in accordance with its terms unless, in either case, (A) the default has been cured or waived and any such acceleration has been rescinded in writing, or (B) such Senior Indebtedness has been paid in full in cash or Cash Equivalents.

If any Designated Senior Indebtedness is in default and such default would allow the acceleration of the Designated Senior Indebtedness without notice, Rent-A-Center will not be permitted to pay the notes for a period (the "Payment Blockage Period") beginning upon the receipt by the Trustee of written notice (a "Blockage Notice") of such default

from the Designated Senior Indebtedness representative specifying an election to effect a Payment Blockage Period. This Payment Blockage Period will end on the earlier of

- - written notice to the Trustee to terminate the period by the person who gave the Blockage Notice;
- - the discharge or repayment in full of the Designated Senior Indebtedness;
- - the default giving rise to the Blockage Notice is no longer continuing; or
- - 179 days have passed following the delivery of the Blockage Notice.

Unless the maturity of the Designated Senior Indebtedness has been accelerated, Rent-A-Center will be permitted to resume payments on the notes after the end of the Payment Blockage Period. Only one Blockage Notice may be given in a 360-day period, regardless of the number of defaults on the Designated Senior Indebtedness during that period. However, if a Blockage Notice is given by a holder of Designated Senior Indebtedness other than Bank Indebtedness during the 360-day period, a representative of Bank Indebtedness may give another Blockage Notice during the 360-day period. In no event, however, may the total number of days during which any Payment Blockage Period or Periods is in effect exceed 179 days during any 360 consecutive day period.

The holders of Senior Indebtedness are entitled to receive payment in full before the noteholders are entitled to receive any payment upon:

- - any payment or distribution of the assets of Rent-A-Center upon a total or partial liquidation, dissolution, reorganization or similar proceeding relating to Rent-A-Center; or
- - in a bankruptcy, insolvency, receivership or similar proceeding relating to Rent-A-Center.

Until the Senior Indebtedness is paid in full, any payment or distribution to which the noteholders would be entitled, but for the subordination provisions of the indenture, will be made to the holders of the Senior Indebtedness. If a distribution is made to the noteholders that should have not been made to them as a result of these subordination provisions, the noteholders are required to hold such a distribution in trust for the holders of the Senior Indebtedness and pay it over to them.

If payment of the notes is accelerated because of an Event of Default, Rent-A-Center or the Trustee is required to promptly notify the holders of the Designated Senior Indebtedness. Rent-A-Center is not permitted to pay the notes until five Business Days after such holders or the Representative of the Designated Senior Indebtedness receive notice of such acceleration. At that time, the Company may pay the notes only if the subordination provisions of the indenture otherwise permit payment at that time.

As a result of the subordination provisions in the indenture, creditors of Rent-A-Center who are holders of Senior Indebtedness may recover more, ratably, than the noteholders in the event of insolvency.

## GUARANTEES

Each Subsidiary Guarantor will unconditionally guarantee, jointly and severally, on an unsecured, senior subordinated basis, the full and prompt payment of principal of, premium, if any, and interest on the notes, and of all other obligations under the indenture.

Ranking. The indebtedness evidenced by each Subsidiary Guarantee, including the payment of principal of, premium, if any, and interest on the notes and other obligations with respect to the notes, will be subordinated to all Guarantor Senior Indebtedness of such Subsidiary Guarantor on the same basis as the notes are subordinated to Senior Indebtedness of Rent-A-Center. Each Subsidiary Guarantee will in all respects rank without preference with all other Senior Subordinated Indebtedness of such Subsidiary Guarantor.

A Subsidiary Guarantor may not incur any Indebtedness if such Indebtedness is subordinate or junior in ranking in any respect to any Guarantor Senior Indebtedness of such Subsidiary Guarantor unless such Indebtedness is Guarantor Senior Subordinated Indebtedness of such Subsidiary Guarantor or is expressly subordinated in right of payment to Guarantor Senior Subordinated Indebtedness of such Subsidiary Guarantor. As of September 30, 1998, there was no Guarantor Senior Indebtedness of Subsidiary Guarantors other than the Guarantees of the senior credit facility. See "Description of Other Indebtedness."

Although the indenture contains limitations on the amount of additional Indebtedness that Rent-A-Center's Restricted Subsidiaries may incur, under certain circumstances the amount of such Indebtedness could be substantial and, in any case, such Indebtedness may be Guarantor Senior Indebtedness. See "-- Certain Covenants -- Limitation on Indebtedness" and "-- Ranking."

Limitation on Subsidiary Guarantee. The obligation of each Subsidiary Guarantor under its Subsidiary Guarantee is limited to the maximum amount as will not constitute a fraudulent conveyance or fraudulent transfer under federal or state law, after giving effect to:

- - all other contingent and fixed liabilities of the Subsidiary Guarantor, including any Guarantees under the Senior Credit Facility; and
- - any collections from or payments made by or on behalf of any other Subsidiary Guarantor with respect to other Subsidiary Guarantor's obligations under its Subsidiary Guarantee pursuant to its contribution obligations under the indenture.

Consolidation and Merger. Each Subsidiary Guarantor is permitted to consolidate or merge into or sell its assets to Rent-A-Center or another Wholly Owned Subsidiary Guarantor without limitation. Each Subsidiary Guarantor is permitted to consolidate with or merge into or sell all or substantially all of its assets to a corporation, partnership, trust, limited partnership, limited liability company or other similar entity other than Rent-A-Center or another Wholly Owned Subsidiary Guarantor if:

- - the provisions under the indenture, including the covenant described under "-- Certain Covenants -- Limitations on Sales of Assets," are complied with; and

- - such Subsidiary Guarantor is released from all of its obligations under the indenture and its Subsidiary Guarantee. However, termination of the Subsidiary Guarantee will only occur to the extent that the Subsidiary Guarantor's obligations under the Senior Credit Facility and all of its Guarantees of any other Indebtedness of Rent-A-Center also terminate.

#### CHANGE OF CONTROL

Upon the occurrence of a change of control (as defined below), each Holder will have the right to require Rent-A-Center to repurchase all or any part of such Holder's notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase. Rent-A-Center will not be obligated to purchase the notes, however, if it has exercised its right to redeem all of the notes as described under "-- Optional Redemption." A "change of control" means

- - any "Person," as such term is used in Sections 13(d) and 14(d) of the Exchange Act, other than one or more Permitted Holders, is or becomes the beneficial owner, as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a Person shall be deemed to have "beneficial ownership" of all shares that any such Person has the right to acquire within one year, directly or indirectly, of more than 50% of the Voting Stock of Rent-A-Center or a Successor Company, as defined below, including, without limitation, through a merger or consolidation or purchase of Voting Stock of Rent-A-Center; provided that the Permitted Holders do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the Board of Directors;
- - during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors, together with any new directors whose election by such Board of Directors or whose nomination for election by the stockholders of Rent-A-Center was approved by a vote of a majority of the directors of Rent-A-Center then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board of Directors then in office;
- - the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions other than a merger or consolidation, of all or substantially all of the assets of Rent-A-Center and its Restricted Subsidiaries taken as a whole to any Person or group of related Persons other than a Permitted Holder; or
- - the adoption of a plan relating to the liquidation or dissolution of Rent-A-Center.

Unless Rent-A-Center has exercised its right to redeem all the Notes as described under "-- Optional Redemption," Rent-A-Center is required, within 30 days following any change of control, or at Rent-A-Center's option, prior to such change of control but after the public announcement thereof, to mail a notice to each Holder with a copy to the Trustee stating:

- - that a change of control has occurred or will occur and that such Holder has, or upon such occurrence will have, the right to require Rent-A-Center to purchase such Holder's notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase;

- - the circumstances and relevant facts and financial information regarding such change of control;
- - the date of purchase, which shall be no earlier than 30 days nor later than 90 days from the date such notice is mailed;
- - the instructions determined by Rent-A-Center, consistent with this covenant, that a Holder must follow in order to have its notes purchased; and
- - that, if such offer is made prior to such change of control, payment is conditioned on the occurrence of such change of control.

Rent-A-Center will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of notes pursuant to this covenant.

The change of control purchase feature is a result of negotiations between Rent-A-Center and the Initial Purchasers. Rent-A-Center has no present plans to engage in a transaction involving a change of control, although it is possible that Rent-A-Center would decide to do so in the future. Subject to the limitations discussed below, Rent-A-Center could, in the future, enter into certain transactions, including acquisitions, refinancings or recapitalizations, that would not constitute a change of control under the indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect Rent-A-Center's capital structure or credit ratings.

The occurrence of a change of control would constitute a default under the Senior Credit Agreement. Future Senior Indebtedness of Rent-A-Center may contain prohibitions of certain events which would constitute a change of control or require such Senior Indebtedness to be repurchased upon a change of control. Moreover, the exercise by the Holders of their right to require Rent-A-Center to repurchase the notes could cause a default under such Senior Indebtedness, even if the change of control itself does not, due to the financial effect of such repurchase on Rent-A-Center. Finally, Rent-A-Center's ability to pay cash to the Holders upon a repurchase may be limited by Rent-A-Center's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases.

The change of control provisions described above may deter certain mergers, tender offers and other takeover attempts involving Rent-A-Center by increasing the capital required to effectuate such transactions. The definition of "change of control" includes a disposition of all or substantially all of the property and assets of Rent-A-Center and its Subsidiaries. With respect to the disposition of property or assets, the phrase "all or substantially all" as used in the indentures varies according to the facts and circumstances of the subject transaction, has no clearly established meaning under New York law and is subject to judicial interpretation. Accordingly, in certain circumstances there may be a degree of uncertainty in ascertaining whether a particular transaction would involve a disposition of "all or substantially all" of the property or assets of a Person, and therefore it may be unclear as to whether a change of control has occurred and whether Rent-A-Center is required to make an offer to repurchase the notes as described above.



## CERTAIN COVENANTS

The indenture contains covenants, including, among others, the following:

## LIMITATION ON INDEBTEDNESS

(A) Neither Rent-A-Center nor any Restricted Subsidiary may Incur any Indebtedness. However, Rent-A-Center and any Restricted Subsidiary which is a Subsidiary Guarantor may incur Indebtedness and related Refinancing Indebtedness if, on the date of the Incurrence of such Indebtedness, the Consolidated Coverage Ratio would be greater than:

- - 2.25 to 1.00 if such Indebtedness is incurred on or before the second anniversary of the Issue Date, and
- - 2.50 to 1.00 if such Indebtedness is incurred after the second anniversary of the Issue Date.

(B) Rent-A-Center and its Restricted Subsidiaries may incur the following types of Indebtedness:

- - Indebtedness incurred pursuant to the Senior Credit Facility, or any refinancing thereof, in a principal amount not to exceed \$962.25 million,
- - the Subsidiary Guarantees and Guarantees of Indebtedness incurred pursuant to paragraph (A) above, or, incurred pursuant to the Senior Credit Facility, or any refinancing thereof, in a principal amount not to exceed \$962.25 million,
- - Indebtedness of Rent-A-Center to any Restricted Subsidiary,
- - Indebtedness of any Wholly Owned Subsidiary to Rent-A-Center or any Restricted Subsidiary. However, any subsequent issuance or transfer of any Capital Stock, or any other event resulting in any such Wholly Owned Subsidiary ceasing to be a Wholly Owned Subsidiary or any other subsequent transfer of such Indebtedness, except to Rent-A-Center or a Wholly Owned Subsidiary, will be deemed an incurrence of Indebtedness by Rent-A-Center or such Restricted Subsidiary, in the amount remaining outstanding after such issuance or transfer of such securities,
- - Indebtedness represented by the notes,
- - Any Indebtedness and related Refinancing Indebtedness, other than the Indebtedness described in any of the situations above, outstanding on the date of the indenture, and any incurred in connection with any of the Indebtedness described,
- - Indebtedness of Rent-A-Center or any Restricted Subsidiary in the form of Capitalized Lease Obligations, Purchase Money Obligations or Attributable Debt, and any related Refinancing Indebtedness, in an aggregate amount not to exceed 2.5% of Consolidated Tangible Assets outstanding at any one time,
- - Indebtedness under Hedging Obligations, as long as such Hedging Obligations are entered into for bona fide hedging purposes of Rent-A-Center or any Restricted Subsidiary and are either in the ordinary course of business or are required by the Senior Credit Facility,

- - Indebtedness evidenced by letters of credit assumed in the Transactions or issued in the ordinary course of business of Rent-A-Center to secure workers' compensation and other insurance coverage,
- - Guarantees of Rent-A-Center for Indebtedness of franchisees not to exceed \$50 million outstanding at any one time, and
- - Indebtedness, which may include Bank Indebtedness, in an aggregate principal amount not to exceed \$25 million outstanding at any one time.

(C) Neither Rent-A-Center nor any Restricted Subsidiary may incur any Indebtedness pursuant to paragraph (B) above that permits Refinancing Indebtedness related to Indebtedness that constitutes Subordinated Obligations, if the proceeds of such Refinancing Indebtedness are used to Refinance such Subordinated Obligations. However, such Indebtedness is permitted if the Refinancing Indebtedness will be subordinated to the notes at least to the same extent as such Subordinated Obligations.

In addition, no Subsidiary Guarantor may incur any Indebtedness pursuant to paragraph (B) above that permits Refinancing Indebtedness with respect to Indebtedness constituting Guarantor Subordinated Obligations, if the proceeds of such Refinancing Indebtedness are used to Refinance such Guarantor Subordinated Obligations of such Subsidiary Guarantor. However, such Indebtedness is permitted if the Refinancing Indebtedness will be subordinated to the obligations of such Subsidiary Guarantor under its Subsidiary Guarantee to at least the same extent as such Guarantor Subordinated Obligations.

(D) If Indebtedness meets the criteria of more than one of the types of Indebtedness described in paragraph (B) above, then for purposes of determining compliance with this covenant, including the outstanding principal amount of any particular Indebtedness relating to this covenant:

- - Rent-A-Center shall have sole discretion to classify such item of Indebtedness. Rent-A-Center is required only to include the amount and type of such Indebtedness in one of such clauses, and
- - the amount of Indebtedness issued at a price that is less than the principal amount of such Indebtedness shall be equal to the amount of the liability attributable to such Indebtedness determined in accordance with GAAP.

(E) Rent-A-Center will not permit any Unrestricted Subsidiary to incur any Indebtedness other than Non-Recourse Debt. However, if any such Indebtedness ceases to be Non-Recourse Debt, then such event shall constitute an Incurrence of Indebtedness by Rent-A-Center or a Restricted Subsidiary.

#### LIMITATION ON LAYERING

Rent-A-Center shall not incur any Indebtedness that is expressly subordinate in right of payment to any Senior Indebtedness, unless such Indebtedness is Senior Subordinated Indebtedness or is subordinated in right of payment to Senior Subordinated Indebtedness by contract.

In addition, no Subsidiary Guarantor will incur any Indebtedness that is expressly subordinate in right of payment to any Guarantor Senior Indebtedness, unless such Indebtedness is Guarantor Senior Subordinated Indebtedness of such Subsidiary Guarantor, or is subordinated in right of payment to Guarantor Senior Subordinated Indebtedness by contract.

Unsecured indebtedness is not considered subordinate to Secured Indebtedness merely because it is unsecured, and Indebtedness that is not guaranteed by a particular person is not deemed to be subordinate to Indebtedness that is so guaranteed, merely because it is not guaranteed.

#### LIMITATION ON RESTRICTED PAYMENTS

(A) Rent-A-Center and its Restricted Subsidiaries are not permitted to take the following actions:

- - Declare or pay any dividend or make any distribution on or with respect to its Capital Stock, including payments in connection with any merger or consolidation involving Rent-A-Center. However, dividends or distributions are permitted if they are either payable solely in Capital Stock, other than Disqualified Stock, or payable to Rent-A-Center or any Restricted Subsidiary. If such Restricted Subsidiary is not a Wholly Owned Subsidiary, then the distributions or dividends may be payable to its other shareholders only if on a pro rata basis, measured by value.
- - Purchase, redeem, retire or otherwise acquire for value any Capital Stock of Rent-A-Center or any Restricted Subsidiary held by Persons other than Rent-A-Center or another Restricted Subsidiary.
- - Purchase, repurchase, redeem, defease or otherwise acquire or retire for value any Subordinated Obligation before scheduled maturity, scheduled repayment or scheduled sinking fund payment. However, this restriction does not apply to a purchase, repurchase, redemption or other acquisition made in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of acquisition.
- - Make certain Restricted Payments. Restricted Payments are defined as any dividend, distribution, purchase, redemption, repurchase, defeasance, other acquisition, retirement or Investment. Rent-A-Center and its Restricted Subsidiaries may not make any Investment, other than a Permitted Investment, in any Person if at the time Rent-A-Center or its Restricted Subsidiary makes a Restricted Payment:
  - a Default occurs and continues to occur or would result therefrom,
  - Rent-A-Center could not incur at least \$1.00 of additional Indebtedness under paragraph (A) of the covenant described in "Limitation of Indebtedness," or
  - the aggregate amount of such Restricted Payment and all other Restricted Payments declared or made after the date of the indenture would exceed the sum of:
    - 50% of the Consolidated Net Income accrued during the period, treated as one accounting period, from the end of the most recent fiscal quarter ending before the Issue Date to the end of the most recent fiscal quarter

ending before the date of such Restricted Payment for which consolidated financial statements of Rent-A-Center are available, or, if such Consolidated Net Income is a deficit, then minus 100% of such deficit;

- the aggregate Net Cash Proceeds received by Rent-A-Center from issuing or selling its Capital Stock, other than Disqualified Stock, after the Issue Date. This does not apply to an issuance or sale to a Restricted Subsidiary, as long as such issuance or sale is to an employee stock ownership plan or other trust established by Rent-A-Center or any of its Subsidiaries for the benefit of their employees, to the extent that the purchase by such plan or trust is financed by Indebtedness of such plan or trust and for which Rent-A-Center is liable as a guarantor or otherwise, such aggregate amount of Net Cash Proceeds shall be limited to the aggregate amount of principal payments made by such plan or trust with respect to such Indebtedness, and
- in the case of the disposition or repayment of any Investment constituting a Restricted payment, without duplication of any amount deducted in calculating the amount of Investments at any time outstanding included in the amount of Restricted Payments, an amount equal to the lesser of the return of capital of similar repayment with respect to such Investment, or the initial amount of such Investment, in either case, less the cost of the disposition of such Investment.

(B) The provisions of paragraph (A) above will not prohibit the following actions:

- - any purchase, redemption, repurchase, defeasance, retirement or other acquisition of Capital Stock of Rent-A-Center or Subordinated Obligations made by exchange, including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares, for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of Rent-A-Center, other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary or an employee stock ownership plan or other trust established by Rent-A-Center or any of its Subsidiaries, provided that:
  - such purchase, redemption, repurchase, defeasance, retirement or other acquisition shall be excluded in subsequent calculations of the amount of Restricted Payments, and
  - the Net Cash Proceeds or reduction of Indebtedness from such sale shall be excluded in calculations under paragraph (A) above,
- - any purchase, redemption, repurchase, defeasance, retirement or other acquisition of Subordinated Obligations made by exchange for, or out of the proceeds of the substantially concurrent sale of, Subordinated Obligations of Rent-A-Center that is permitted to be Incurred by the covenant described under "Limitation on Indebtedness." However, such purchase, redemption, repurchase, defeasance, retirement or other acquisition shall be excluded in subsequent calculations of the amount of Restricted Payments,

- - any purchase, redemption, repurchase, defeasance, retirement or other acquisition of Subordinated Obligations from Net Available Cash to the extent permitted by the covenant described under "Limitation on Sales of Assets." However, such purchase, redemption, repurchase, defeasance, retirement or other acquisition shall be excluded in subsequent calculations of the amount of Restricted Payments,
- - Payment of dividends within 60 days after the date of declaration of such dividends, if at the date of declaration such dividend would have complied with paragraph (A) above. However, such dividend shall be included in subsequent calculations of the amount of Restricted Payments,
- - any purchase or redemption of any share of Capital Stock of Rent-A-Center from employees of Rent-A-Center and its Subsidiaries pursuant to the repurchase provisions under employee stock option or stock purchase agreements or other agreements to compensate management in an aggregate amount after the date of the indenture not in excess of \$2.5 million in any fiscal year, plus any unused amounts under this clause from prior fiscal years. However, such purchases or redemptions shall be excluded in subsequent calculations of the amount of Restricted Payments, or
- - any repurchase of Rent-A-Center common stock in an aggregate amount not to exceed the amount by which the proceeds from the issuance of the Convertible Preferred Stock exceeds \$235 million. However, the aggregate amount of repurchases made pursuant to this clause shall not exceed \$25 million.

#### DESIGNATION OF UNRESTRICTED SUBSIDIARIES

The Board of Directors of Rent-A-Center may designate any Restricted Subsidiary as an Unrestricted Subsidiary if such designation would not cause a default. For purposes of making such determination, all outstanding Investments by Rent-A-Center and its Restricted Subsidiaries, except to the extent repaid in cash, in the subsidiary so designated will be deemed Restricted Payments at the time of such designation, and will reduce the amount available for Restricted Payments under clause three of paragraph (A) of the covenant described in "Limitation on Restricted Payments."

All such outstanding Investments will be deemed to constitute Investments in an amount equal to the greater of the fair market value or the book value of such Subsidiary at the time of such designation. Such Designation will be permitted only if such Restricted Payment would be permitted at such time, and if such Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary.

#### LIMITATION ON RESTRICTIONS ON DISTRIBUTIONS FROM RESTRICTED SUBSIDIARIES

Neither Rent-A-Center nor any Restricted Subsidiary shall create or otherwise cause or permit to exist any consensual restriction on the ability of any Restricted Subsidiary to take the following actions:

- - pay dividends or make any other distributions on its Capital Stock or pay any Indebtedness or other obligations owed to Rent-A-Center,
- - make any loans or advances to Rent-A-Center, or
- - transfer any of its property or assets to Rent-A-Center.

However, this prohibition does not apply to:

- - any restriction pursuant to an agreement in effect or entered into on the date of the indenture, including, without limitation, the Senior Credit Facility,
- - any restriction with respect to a Restricted Subsidiary that is either:
  - pursuant to an agreement relating to any Indebtedness Incurred by a Restricted Subsidiary before the date on which such Restricted Subsidiary was acquired by Rent-A-Center, or of another Person that is assumed by Rent-A-Center or a Restricted Subsidiary in connection with the acquisition of assets from, or merger or consolidation with, such Person and is outstanding on the date of such acquisition, merger or consolidation. However, this does not include Indebtedness Incurred either as consideration in, or for the provision of any portion of the funds or credit support used to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by Rent-A-Center, or such acquisition of assets, merger or consolidation, or
  - pursuant to any agreement, not relating to any Indebtedness, existing when a Person becomes a Subsidiary of Rent-A-Center or when such agreement is acquired by Rent-A-Center or any Subsidiary thereof, that is not created in contemplation of such Person becoming such a Subsidiary or such acquisition. For purposes of this clause, if another Person is the Successor Company, any Subsidiary or agreement thereof shall be deemed acquired or assumed by Rent-A-Center when such Person becomes the Successor Company.
- - any restriction with respect to a Restricted Subsidiary pursuant to an agreement (a "Refinancing Agreement") effecting a refinancing of Indebtedness Incurred pursuant to, or that otherwise extends, renews, refinances or replaces, an agreement referred to in this covenant (an "Initial Agreement") or contained in any amendment to an Initial Agreement. However, the restrictions contained in any such Refinancing Agreement or amendment cannot be less favorable to the Holders of the notes taken as a whole than restrictions contained in the Initial Agreement or Agreements to which such Refinancing Agreement or amendment relates,
- - any restriction that is a customary restriction on subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, or the assignment or transfer of any lease, license or other contract,
- - any restriction by virtue of a transfer, agreement to transfer, option, right, or Lien with respect to any property or assets of Rent-A-Center or any Restricted Subsidiary not otherwise prohibited by the indenture,
- - any restriction contained in mortgages, pledges or other agreements securing Indebtedness of a Restricted Subsidiary to the extent such encumbrance or restrictions restrict the transfer of the property subject to such mortgages, pledges or other security agreements,
- - any restriction pursuant to customary restrictions on dispositions of real property interests set forth in any reciprocal easement agreements of Rent-A-Center or any Restricted Subsidiary,

- - any restriction with respect to a Restricted Subsidiary, or any of its property or assets, imposed pursuant to an agreement for the sale or disposition of all or substantially all of the Capital Stock or assets of such Restricted Subsidiary, or the property or assets that are subject to such restriction, pending the closing of such sale or disposition, or
- - any restriction on the transfer of property or assets required by any regulatory authority having jurisdiction over Rent-A-Center or any Restricted Subsidiary or any of their businesses.

#### LIMITATION ON SALES OF ASSETS

Neither Rent-A-Center nor any Restricted Subsidiary shall make any Asset Disposition unless:

- - Rent-A-Center or such Restricted Subsidiary receives consideration, including relief from, or the assumption of another Person for, any liabilities, contingent or otherwise, at the time of such Asset Disposition at least equal to the fair market value of the shares and assets subject to such Asset Disposition. The Board of Directors shall determine the fair market value, and their determination shall be conclusive, including as to the value of all non-cash consideration,
- - at least 75% of the consideration for any Asset Disposition received by Rent-A-Center or such Restricted Subsidiary is in the form of cash. However, in the case of an Asset Disposition of assets, consideration is excluded if it is by way of relief from, or by any other person assuming responsibility for, any liabilities, contingent or otherwise, which are not Indebtedness,
- - Rent-A-Center or such Restricted Subsidiary applies an amount equal to 100% of the Net Available Cash from such Asset Disposition in the following manner:
  - first, to the extent Rent-A-Center elects, or is required by the terms of any Senior Indebtedness or Indebtedness, other than Preferred Stock, of a Restricted Subsidiary, to prepay, repay or purchase senior indebtedness or such Indebtedness of a Restricted Subsidiary, in each case other than the Indebtedness owed to Rent-A-Center or a Restricted Subsidiary, within 365 days after the date of such Asset Disposition,
  - second, to the extent of the balance of Net Available Cash, to the extent Rent-A-Center or such Restricted Subsidiary elects, to reinvest in Additional Assets, including by means of an Investment in Additional Assets by a Restricted Subsidiary with Net Available Cash received by Rent-A-Center or another Restricted Subsidiary, within 365 days from the date of such Asset Disposition or, if such reinvestment in Additional Assets is a project authorized by the Board of Directors that will take longer than 365 days to complete, the period of time necessary to complete such project,
  - third, to the extent of the balance of such Net Available Cash remaining (the "Excess Proceeds"), to make an offer to purchase notes at a price in cash equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the purchase date, and, to the extent required by the terms thereof, any other Senior Subordinated Indebtedness subject to the agreements governing such other

Indebtedness at a purchase price of 100% of the principal amount thereof plus accrued and unpaid interest to the purchase date, and

- fourth, to the extent of the balance of such Excess Proceeds, to fund any general corporate purpose, including the repayment of Subordinated Obligations. However, in connection with any prepayments, repayment or purchase of Indebtedness pursuant to the first and third clauses above, Rent-A-Center or such Restricted Subsidiary will retire such Indebtedness and will cause the related loan commitment, if any, to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased.

The provisions of this covenant do not require Rent-A-Center and the Restricted Subsidiaries to apply any Net Available Cash in accordance with this covenant, except to the extent that the aggregate Net Available Cash from all Asset Dispositions that is not applied in accordance with this covenant exceeds \$10.0 million.

To the extent that the aggregate principal amount of the notes and other Senior Subordinated Indebtedness tendered pursuant to an offer to purchase made in accordance with the third clause above exceeds the amount of Excess Proceeds, the Trustee shall select the notes and Senior Subordinated Indebtedness to be purchased on a pro rata basis, based on the aggregate principal amount thereof surrendered in such offer to purchase. When such offer to purchase is complete, the amount of Excess Proceeds shall be reset to zero.

For the purposes of this covenant, the following are deemed to be cash:

- - Cash Equivalents,
- - the assumption of Indebtedness of Rent-A-Center, other than Disqualified Stock of Rent-A-Center, or any Restricted Subsidiary and the release of Rent-A-Center or such Restricted Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition,
- - Indebtedness of any Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Disposition, to the extent that Rent-A-Center and each other Restricted Subsidiary is released from any Guarantee of such Indebtedness in connection with such Asset Disposition,
- - securities received by Rent-A-Center or any Restricted Subsidiary from the transferee that are promptly converted by Rent-A-Center or such Restricted Subsidiary into cash, and
- - consideration consisting of Indebtedness of Rent-A-Center or any Restricted Subsidiary.

Rent-A-Center will comply with any applicable requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with provisions of this covenant, Rent-A-Center will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant as a result of such compliance.



## LIMITATION ON TRANSACTIONS WITH AFFILIATES

Neither Rent-A-Center nor any of its Restricted Subsidiaries shall engage in any transaction or series of transactions, including the purchase, sale, lease or exchange of any property or the rendering of any service with any Affiliate of Rent-A-Center (an "Affiliate Transaction") on terms that:

- - taken as a whole are less favorable to Rent-A-Center or such Restricted Subsidiary than the terms that could be obtained at the time of such transaction in arm's-length dealings with a non-affiliate, and,
- - in the event such Affiliate Transaction involves an aggregate amount in excess of \$10.0 million, is not in writing and has not been approved by a majority of the members of the Board of Directors having no material personal financial interest in such Affiliate Transaction. If there are no such Board members, then Rent-A-Center must obtain a Fairness Opinion. A Fairness Opinion means an opinion from an independent investment banking firm or appraiser of national prominence which indicates that the terms of such transaction are fair to Rent-A-Center or such Restricted Subsidiary from a financial point of view.

In addition, any transaction involving aggregate payments or other transfers by Rent-A-Center and its Restricted Subsidiaries in excess of \$20.0 million will also require a Fairness Opinion.

The provisions of the paragraph above shall not prohibit the following actions:

- - any Restricted Payment permitted by the covenant described under "Limitation on Restricted Payments" or any Permitted Investment,
- - the performance of the obligations of Rent-A-Center or a Restricted Subsidiary under any employment contract, collective bargaining agreement, service agreement, employee benefit plan, related trust agreement or any other similar arrangement entered into in the ordinary course of business,
- - payment of compensation, performance of indemnification or contribution obligations,
- - any issuance, grant or award of stock, options or other securities, to employees, officers or directors in the ordinary course of business,
- - any transaction between Rent-A-Center and a Restricted Subsidiary or between Restricted Subsidiaries,
- - any other transaction arising out of agreements existing on the Issue Date, and
- - transactions with suppliers or other purchasers or sellers of goods or services, in each case in the ordinary course of business and on terms no less favorable to Rent-A-Center or the Restricted Subsidiary than those that could be obtained at such time in arm's-length dealings with a non-affiliate.

## LIMITATION ON THE SALE OR ISSUANCE OF PREFERRED STOCK OF RESTRICTED SUBSIDIARIES

Rent-A-Center shall not sell any shares of Preferred Stock of a Restricted Subsidiary, and shall not permit any Restricted Subsidiary to issue or sell any shares of its Preferred Stock to any Person, other than to Rent-A-Center or a Restricted Subsidiary.

## LIMITATION ON LIENS

Neither Rent-A-Center nor any Restricted Subsidiary shall create or permit to exist any Lien, other than Permitted Liens, on any of its property or assets, including Capital Stock, whether owned on the date of the indenture or thereafter acquired, securing any Indebtedness that is not Senior Indebtedness (the "Initial Lien"), unless at the same time effective provision is made to secure the obligations due under the indenture and the notes or, with respect to Liens on any Restricted Subsidiary's property or assets, equally and ratably with such obligation for so long as such obligation is secured by such Initial Lien.

Any such Lien created in favor of the notes will be automatically and unconditionally released and discharged upon:

- - the release and discharge of the Initial Lien to which it relates, or
- - any sale, exchange or transfer to a non-affiliate of Rent-A-Center of the property or assets secured by such Initial Lien, or of all of the Capital Stock held by Rent-A-Center or any Restricted Subsidiary, or all or substantially all of the assets of any Restricted Subsidiary creating such Lien.

## REPORTING REQUIREMENTS

As long as any of the notes are outstanding, Rent-A-Center will file with the SEC, unless the SEC will not accept such a filing, the annual reports, quarterly reports and other documents required to be filed with the SEC pursuant to Sections 13 and 15 of the Exchange Act, whether or not Rent-A-Center is then obligated to file reports pursuant to such sections. Rent-A-Center will be required to file with the Trustee and provide to each holder of notes copies of such reports and documents within 15 days after filing with the SEC, or if any such filing is not permitted under the Exchange Act, 15 days after Rent-A-Center would have been required to make such filing.

## FUTURE SUBSIDIARY GUARANTORS

After the Issue Date, Rent-A-Center will cause each Restricted Subsidiary created or acquired by Rent-A-Center to execute and deliver to the Trustee a Subsidiary Guarantee. Pursuant to such Subsidiary Guarantee, such Restricted Subsidiary will unconditionally Guarantee, on a joint and several basis, the full and prompt payment of the principal, premium, if any, and interest on the notes on a senior unsecured basis.

## LIMITATION ON SALE/LEASEBACK TRANSACTIONS

Neither Rent-A-Center nor any Restricted Subsidiary shall enter into any Sale/Leaseback Transaction for any property unless:

- - Rent-A-Center or such Restricted Subsidiary would be entitled to Incur Indebtedness in an amount equal to the Attributable Debt with respect to such Sale/Leaseback Transaction pursuant to the covenant described under "Limitation on Indebtedness,"

- - the net proceeds received by Rent-A-Center or any Restricted Subsidiary in connection with such Sale/Leaseback Transaction are at least equal to the fair value, as determined by the Board of Directors, of such property, and
- - the transfer of such property is permitted by the covenant described under "Limitation on Sales of Assets," and Rent-A-Center or such Restricted Subsidiary applies the proceeds of such transaction in compliance with the covenant described under "Limitation on Sales of Assets."

#### MERGER AND CONSOLIDATION

Rent-A-Center will not, in a single transaction or a series of related transactions, consolidate with or merge with or into, or convey, transfer or lease all or substantially all its assets to, any Person, unless:

- (1) the resulting, surviving or transferee Person (the "Successor Company") will be a Person organized and existing under the laws of the United States of America, any State thereof or the District of Columbia,
- (2) the Successor Company, if not Rent-A-Center, will expressly assume, by an indenture supplemental to the indenture, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of Rent-A-Center under the notes and the indenture,
- (3) immediately before and after giving effect to such transaction or series of transactions no Default or Event of Default exists,
- (4) Rent-A-Center or the Successor Company, if Rent-A-Center is not the continuing obligor under the indenture, will, at the time of such transaction or series of transactions and after giving proforma effect thereto as if such transaction or series of transactions had occurred at the beginning of the applicable four-quarter period, be permitted to Incur at least an additional \$1.00 of Indebtedness pursuant to paragraph (A) of "-- Limitation on Indebtedness," and
- (5) Rent-A-Center will have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each to the effect that such consolidation, merger or transfer and such supplemental indenture, if any, comply with the indenture, provided that:
- (6) in giving such opinion such counsel may rely on such Officer's Certificate as to any matters of fact, including without limitation as to compliance with the foregoing clauses, and
- (7) no Opinion of Counsel will be required for a consolidation, merger or transfer described in the previous paragraph of this covenant.

The Successor Company will be substituted for, and may exercise every right and power of, Rent-A-Center under the indenture. Thereafter the Rent-A-Center shall be relieved of all obligations and covenants under the indenture, except that, in the case of a conveyance, transfer or lease of all or substantially all its assets, the Rent-A-Center will not be released from the obligation to pay the principal of and interest on the notes.

The provisions of this covenant do not prohibit any Restricted Subsidiary from consolidating with, merging into or transferring all or part of its properties and assets to Rent-A-Center. Additionally, Rent-A-Center may merge with an Affiliate incorporated or organized for the purpose of reincorporating or reorganizing Rent-A-Center in another jurisdiction to realize tax or other benefits.

#### DEFAULTS

An Event of Default under the indenture is defined as:

- (1) a default in any payment of interest on any note when due, whether or not such payment is prohibited by the provisions described under "-- Ranking" above, continued for 30 days,
- (2) a default in the payment of principal of any note when due at its Stated Maturity, upon optional redemption, upon required repurchase, upon declaration or otherwise, whether or not such payment is prohibited by the provisions described under "-- Ranking" above,
- (3) the failure by Rent-A-Center to comply with its obligations under the covenant described under "-- Merger and Consolidation" above,
- (4) the failure by Rent-A-Center to comply for 30 days after written notice with any of its obligations under the covenants described under "-- Change of Control" or "-- Certain Covenants" above, in each case, other than a failure to purchase notes,
- (5) the failure by Rent-A-Center to comply for 60 days after notice with its other agreements contained in the notes or the indenture,
- (6) the failure by Rent-A-Center or any Significant Subsidiary to pay any Indebtedness within any applicable grace period after final maturity or the acceleration of any such Indebtedness by the holders thereof because of a default if the total amount of such Indebtedness unpaid or accelerated exceeds \$25 million (the "Cross Acceleration Provision"),
- (7) events of bankruptcy, insolvency or reorganization of Rent-A-Center or a Significant Subsidiary (the "Bankruptcy Provisions"),
- (8) the rendering of any judgment or decree for the payment of money in an amount, net of any insurance or indemnity payments actually received in respect thereof prior to or within 90 days from the entry thereof, or to be received in respect thereof in the event any appeal thereof shall be unsuccessful, in excess of \$25 million against Rent-A-Center or a Significant Subsidiary that is not discharged, bonded or insured by a third Person if either an enforcement proceeding thereon is commenced, or such judgment or decree remains outstanding for a period of 90 days and is not discharged, waived or stayed (the "Judgment Default Provision"), or
- (9) the failure of any Guarantee of the notes by a Subsidiary Guarantor to be in full force, except as contemplated by the terms thereof or of the indenture, or the denial in writing by any such Subsidiary Guarantor of its obligations under the indenture or any such Guarantee if such Default continues for 10 days.

The events listed above will constitute Events of Default regardless of their reasons, whether voluntary or involuntary or whether effected by operation of law or pursuant to any judgment, decree order, rule or regulation of any administrative or governmental body.

However, a Default by Rent-A-Center under the covenants described under "Change of Control" or "Certain Covenants," or a failure by Rent-A-Center to comply with agreements in the notes or the indenture will not constitute an Event of Default until the applicable Trustee or the Holders of at least 25% of the aggregate principal amount of the outstanding applicable notes notify Rent-A-Center of the Default and Rent-A-Center does not cure such Default within the time specified after receipt of such notice.

If an Event of Default, other than a Default relating to certain events of bankruptcy, insolvency or reorganization of Rent-A-Center, occurs and is continuing, either the Trustee, by notice to Rent-A-Center, or the Holders of at least a majority in principal amount of the outstanding notes, by notice to Rent-A-Center and the Trustee, may declare the principal of and accrued but unpaid interest on all of such notes to be due and payable.

Upon such a declaration, such principal and interest will be due and payable immediately. If an Event of Default relating to events of bankruptcy, insolvency or reorganization of Rent-A-Center occurs and is continuing, the principal of and interest on all the notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any Holder. Under certain circumstances, the Holders of a majority in principal amount of the outstanding notes may rescind any such acceleration with respect to the notes and its consequences.

Subject to the provisions of the indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the indenture at the request or direction of any of the Holders, unless such Holders have offered to the Trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or interest when due, no Holder may pursue any remedy with respect to the indenture or the notes unless:

- - such Holder has previously given the Trustee notice that an Event of Default is continuing,
- - Holders of at least 25% in principal amount of the outstanding notes have requested the Trustee to pursue the remedy,
- - such Holders have offered the Trustee reasonable security or indemnity against any loss, liability or expense,
- - the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity, and
- - the Holders of a majority in principal amount of the applicable notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

Subject to certain restrictions, the Holders of a majority in principal amount of the notes outstanding are given the right to direct the time, method and place of conducting any

proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The Trustee, however, may refuse to follow any direction that:

- - conflicts with law or the indenture,
- - the Trustee determines is unduly prejudicial to the rights of any other Holder, or
- - would involve the Trustee in personal liability.

Before taking any action under the indenture, the Trustee will be entitled to indemnification satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action.

The indenture provides that if a Default occurs and is continuing and is known to the Trustee, the Trustee must mail to each Holder notice of the Default within 90 days after it occurs. Except in the case of a Default in the payment of principal of, premium, if any, or interest on any note, the Trustee may withhold notice if and so long as a committee of its Trust Officers in good faith determines that withholding notice is in the interests of the Noteholders. In addition, Rent-A-Center is required to deliver to the Trustee, within 120 days after the end of each fiscal year, a certificate indicating whether the signers thereof know of any Default that occurred during the previous year. Rent-A-Center also is required to deliver to the Trustee, within 30 days after the occurrence thereof, written notice of any event which would constitute certain Defaults, their status and what action Rent-A-Center is taking or proposes to take in respect thereof.

#### AMENDMENTS AND WAIVERS

Subject to certain exceptions, the indenture may be amended with the consent of the Holders of a majority in principal amount of the notes then outstanding. Additionally, any past default on any provisions may be waived with the consent of the Holders of a majority in principal amount of the notes then outstanding. However, without the consent of each Holder, no amendment may, among other things:

- - reduce the principal amount of notes whose Holders must consent to an amendment,
- - reduce the rate of or extend the time for payment of interest on any note,
- - reduce the principal amount of or extend the Stated Maturity of any note,
- - reduce the premium payable upon the redemption of any note or change the time at which any note may be redeemed as described under "-- Optional Redemption" above,
- - make any note payable in money other than that stated in the note,
- - make any change to the subordination provisions of the indenture that adversely affects the rights of any Holder,
- - impair the right of any Holder to receive payment of principal of and interest on such Holder's notes on or after the due dates therefor or to sue for the enforcement of any payment on or with respect to such Holder's notes, or
- - make any change in the amendment provisions which require each Holder's consent or in the waiver provisions.

Without the consent of any Holder, Rent-A-Center, the Subsidiary Guarantors and the Trustee may amend the indenture in the following manner:

- - to cure any ambiguity, omission, defect or inconsistency,
- - to provide for the assumption by a successor corporation of the obligations of Rent-A-Center under the indenture,
- - to provide for uncertificated notes in addition to or in place of certificated notes, provided, however, that the uncertificated notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated notes are described in Section 163(f)(2)(B) of the Code,
- - to add Guarantees with respect to the notes, to secure the notes, to add to the covenants of Rent-A-Center for the benefit of the Noteholders or to surrender any right or power conferred upon Rent-A-Center, and
- - to make any change that does not adversely affect the rights of any Holder, or to comply with any requirement of the SEC in connection with the qualification of the indenture under the TIA.

However, no amendment may be made to the subordination provisions of the indenture that adversely affects the rights of any holder of senior indebtedness then outstanding unless the holders of such senior indebtedness, or any group or representative thereof authorized to give a consent, consent to such change.

The consent of the Noteholders is not necessary under the indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. After an amendment under the indenture becomes effective, Rent-A-Center is required to mail to the applicable Noteholders a notice briefly describing such amendment. However, the failure to give such notice to all such Noteholders, or any defect in such notice, will not impair or affect the validity of the amendment.

#### DEFEASANCE

Rent-A-Center at any time may terminate all its obligations under the Notes and the indenture ("legal defeasance"), except for certain obligations, including those respecting the defeasance trust and obligations to register the transfer or exchange of the notes, to replace mutilated, destroyed, lost or stolen notes and to maintain a registrar and paying agent in respect of the notes. Rent-A-Center at any time may terminate its obligations under the covenants described under "-- Certain Covenants," the operation of the Cross Acceleration Provision, the Bankruptcy Provisions with respect to Subsidiaries and the Judgment Default Provision described under "-- Defaults" above and the limitations contained in the third and fourth clauses under "-- Merger and Consolidation" above ("covenant defeasance").

Rent-A-Center may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If Rent-A-Center exercises its legal defeasance option, payment of the notes may not be accelerated because of an Event of Default. If Rent-A-Center exercises its covenant defeasance option, payment of the notes may not be accelerated because of an Event of Default specified in clauses four, six, seven, but only

with respect to certain bankruptcy events of a Significant Subsidiary, eight or nine under "-- Defaults" above or because of the failure of Rent-A-Center to comply with clause three or four under "-- Merger and Consolidation" above.

Either defeasance option may be exercised before any redemption date or the maturity date for the notes. In order to exercise either defeasance option, Rent-A-Center must irrevocably deposit in trust (the "defeasance trust") with the Trustee money or U.S. Government Obligations, or a combination thereof, for the payment of principal of, and premium, if any, and interest on, the applicable notes to redemption or maturity, as the case may be. Additionally, Rent-A-Center must comply with other conditions, including delivery to the Trustee of an Opinion of Counsel to the effect that Holders of the notes will not recognize income, gain or loss for federal income tax purposes as a result of such deposit and defeasance and will be subject to federal income tax in the same amount and in the same manner and times as would have been the case if such deposit and defeasance had not occurred. In the case of legal defeasance only, such Opinion of Counsel must be based on a ruling of the Internal Revenue Service or other change in applicable federal income tax law since the date of the indenture.

#### CONCERNING THE TRUSTEE

IBJ Whitehall Bank & Trust Company serves as the Trustee for the notes. The Trustee has been appointed by Rent-A-Center as Registrar and Paying Agent with regard to the notes.

#### GOVERNING LAW

Both the indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York. Principles of conflicts of law will not apply to the extent that such principles would require the application of the law of another jurisdiction.

#### CERTAIN DEFINITIONS

"Additional Assets" means

- (1) any property or assets (other than Indebtedness and Capital Stock) to be used by the Company or a Restricted Subsidiary in a Related Business;
- (2) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Restricted Subsidiary;
- (3) Capital Stock of any Person that at such time is a Restricted Subsidiary, acquired from a third party; provided, however, that, in the case of clauses (2) and (3), such Restricted Subsidiary is primarily engaged in a Related Business; or
- (4) Capital Stock of any Person which is primarily engaged in a Related Business; provided, however, for purposes of the covenant described under "-- Certain Covenants -- Limitation on Sales of Assets," the aggregate amount of Net Available Cash permitted to be invested pursuant to this clause (4) shall not exceed at any one time outstanding 5% of Consolidated Tangible Assets.



"Affiliate" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. The Chase Manhattan Bank and its Affiliates shall not be deemed an Affiliate of the Company.

"Apollo" means Apollo Management IV, L.P. and its Affiliates or any entity controlled thereby or any of the partners thereof.

"Asset Disposition" means any sale, lease, transfer or other disposition of shares of Capital Stock of a Restricted Subsidiary, other than directors' qualifying shares, property or other assets, each referred to for the purposes of this definition as a "disposition," by the Company or any of its Restricted Subsidiaries, including any disposition by means of a merger, consolidation or similar transaction, other than

- (1) a disposition by a Restricted Subsidiary to the Company or by the Company or a Restricted Subsidiary to a Restricted Subsidiary,
- (2) a disposition of inventory, equipment, obsolete assets or surplus personal property in the ordinary course of business,
- (3) the sale of Temporary Cash Investments or Cash Equivalents in the ordinary course of business,
- (4) a transaction or a series of related transactions in which either
  - (a) the fair market value of the assets disposed of, in the aggregate, does not exceed 2.5% of the Consolidated Tangible Assets of the Company or
  - (b) the EBITDA related to such assets does not, in the aggregate, exceed 2.5% of the Company's EBITDA,
- (5) the sale or discount, with or without recourse, and on commercially reasonable terms, of accounts receivable or notes receivable arising in the ordinary course of business, or the conversion or exchange of accounts receivable for notes receivable,
- (6) the licensing of intellectual property in the ordinary course of business,
- (7) an RTO Facility Swap,
- (8) for purposes of the covenant described under "-- Certain Covenants -- Limitation on Sales of Assets" only, a disposition subject to the covenant described under "-- Certain Covenants -- Limitation on Restricted Payments," or
- (9) a disposition of property or assets that is governed by the provisions described under "-- Merger and Consolidation."

"Attributable Debt" in respect of a Sale/Leaseback Transaction means, as at the time of determination, the present value, discounted at the interest rate assumed in making calculations in accordance with FAS 13, of the total obligations of the lessee for

rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction, including any period for which such lease has been extended.

"Average Life" means, as of the date of determination, with respect to any Indebtedness or Preferred Stock, the quotient obtained by dividing

- (1) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness or redemption or similar payment with respect to such Indebtedness or Preferred Stock multiplied by the amount of such payment by
- (2) the sum of all such payments.

"Bank Indebtedness" means any and all amounts, whether outstanding on the Issue Date or thereafter incurred, payable under or in respect of the Senior Credit Facility, including, without limitation, principal, premium, if any, interest, including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Company or any Restricted Subsidiary whether or not a claim for postfiling interest is allowed in such proceedings, fees, charges, expenses, reimbursement obligations, guarantees, other monetary obligations of any nature and all other amounts payable thereunder or in respect thereof.

"Board of Directors" means the Board of Directors of the Company or any committee thereof duly authorized to act on behalf of such Board.

"Business Day" means a day other than a Saturday, Sunday or other day on which commercial banking institutions are authorized or required by law to close in New York City.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in, however designated, equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"Capitalized Lease Obligations" means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes in accordance with GAAP, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease.

"Cash Equivalents" means any of the following:

- (1) securities issued or fully guaranteed or insured by the United States Government or any agency or instrumentality thereof,
- (2) time deposits, certificates of deposit or bankers' acceptances of
  - (a) any lender under the Senior Credit Agreement or
  - (b) any commercial bank having capital and surplus in excess of \$500,000,000 and the commercial paper of the holding company of which is rated at least "A-2" or the equivalent thereof by S&P or at least "P-2" or the equivalent thereof by Moody's, or if at such time neither is issuing

ratings, then a comparable rating of another nationally recognized rating agency,

- (3) commercial paper rated at least "A1" or the equivalent thereof by S&P or at least "P-1" or the equivalent thereof by Moody's, or if at such time neither is issuing ratings, then a comparable rating of another nationally recognized rating agency,
- (4) investments in money market funds complying with the risk limiting conditions of Rule 2a-7 or any successor rule of the SEC under the Investment Company Act,
- (5) repurchase obligations of any commercial bank satisfying the requirements of clause (2) of this definition, having a term of not more than 30 days, with respect to securities issued or fully guaranteed or insured by the United States government,
- (6) securities with maturities of one year or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States, by any political subdivision or taxing authority of any such state, commonwealth or territory or by any foreign government, the securities of which state, commonwealth, territory, political subdivision, taxing authority or foreign government, as the case may be, are rated at least "A" by S&P or "A" by Moody's, and
- (7) securities with maturities of six months or less from the date of acquisition backed by standby letters of credit issued by any commercial bank satisfying the requirements of clause (2) of this definition.

"Central Acquisition" means the Company's acquisition of substantially all of the assets of Central Rents, Inc.

"Chase" means The Chase Manhattan Bank.

"Code" means the Internal Revenue Code of 1986, as amended.

"Company" means Rent-A-Center, Inc., formerly known as Renters Choice, Inc., after giving effect to the Thorn Americas Acquisition.

"Consolidated Coverage Ratio" as of any date of determination means the ratio of

- (1) the aggregate amount of EBITDA of the Company and its Restricted Subsidiaries for the period of the most recent four consecutive fiscal quarters ending prior to the date of such determination for which consolidated financial statements of the Company are available to
- (2) Consolidated Interest Expense for such four fiscal quarters, in each of clauses (1) and (2), determined, for each fiscal quarter, or portion thereof, of the four fiscal quarters ending prior to the Issue Date, on a pro forma basis to give effect to the Central Acquisition and the Transactions, including the anticipated disposition of any non-rent-to-own businesses under contract for sale or held for sale following the Issue Date, as if they had occurred at the beginning of such four-quarter period; provided, however, that:
  - (a) if the Company or any Restricted Subsidiary

- has Incurred any Indebtedness since the beginning of such period that remains outstanding on such date of determination or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an Incurrence of Indebtedness, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect on a pro forma basis to such Indebtedness as if such Indebtedness had been Incurred on the first day of such period, except that in making such computation, the amount of Indebtedness under any revolving credit facility outstanding on the date of such calculation shall be computed based on
    - the average daily balance of such Indebtedness during such four fiscal quarters or such shorter period for which such facility was outstanding or
    - if such facility was created after the end of such four fiscal quarters, the average daily balance of such Indebtedness during the period from the date of creation of such facility to the date of such calculation, and the discharge of any other Indebtedness repaid, repurchased, defeased or otherwise discharged with the proceeds of such new Indebtedness as if such discharge had occurred on the first day of such period, or
  - has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of the period that is no longer outstanding on such date of determination, or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio involves a discharge of Indebtedness, in each case other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect on a pro forma basis to such discharge of such Indebtedness, including with the proceeds of such new Indebtedness, as if such discharge had occurred on the first day of such period;
- (b) if since the beginning of such period the Company or any Restricted Subsidiary shall have made any Asset Disposition of any company or any business or any group of assets, the EBITDA for such period shall be reduced by an amount equal to the EBITDA, if positive, directly attributable to the assets that are the subject of such Asset Disposition for such period or increased by an amount equal to the EBITDA, if negative, directly attributable thereto for such period and Consolidated Interest Expense for such period shall be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of the Company or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Company and its continuing Restricted Subsidiaries in connection with such Asset Disposition for such period, and, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent the Company and its continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale;

- (c) if since the beginning of such period the Company or any Restricted Subsidiary, by merger or otherwise, shall have made an Investment in any Person that thereby becomes a Restricted Subsidiary, or otherwise acquired any company or any business or any group of assets, including any such acquisition of assets occurring in connection with a transaction causing a calculation to be made hereunder, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto, including the Incurrence of any Indebtedness and including the pro forma expenses and cost reductions calculated on a basis consistent with Regulation S-X of the Securities Act, as if such Investment or acquisition occurred on the first day of such period; and
- (d) if since the beginning of such period any Person, that subsequently became a Restricted Subsidiary or was merged with or into the Company or any Restricted Subsidiary since the beginning of such period, shall have made any Asset Disposition or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (b) or (c) above if made by the Company or a Restricted Subsidiary during such period, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition of assets occurred on the first day of such period.

For purposes of this definition, whenever pro forma effect is to be given to an Asset Disposition, Investment or acquisition of assets, or any transaction governed by the provisions described under "-- Merger and Consolidation," or the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Indebtedness Incurred or repaid, repurchased, defeased or otherwise discharged in connection therewith, the pro forma calculations in respect thereof shall be as determined in good faith by a responsible financial or accounting officer of the Company, based on reasonable assumptions. If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest expense on such Indebtedness shall be calculated at a fixed rate as if the rate in effect on the date of determination had been the applicable rate for the entire period, taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term as at the date of determination in excess of 12 months. If any Indebtedness bears, at the option of the Company or a Restricted Subsidiary, a fixed or floating rate of interest and is being given pro forma effect, the interest expense on such Indebtedness shall be computed by applying, at the option of the Company or such Restricted Subsidiary, either a fixed or floating rate. If any Indebtedness which is being given pro forma effect was Incurred under a revolving credit facility, the interest expense on such Indebtedness shall be computed based upon the average daily balance of such Indebtedness during the applicable period.

"Consolidated Interest Expense" means, as to any Person, for any period, the total consolidated interest expense of such Person and its Subsidiaries determined in accordance with GAAP, minus, to the extent included in such interest expense, amortization or write-off of financing costs plus, to the extent incurred by such Person and its Subsidiaries in such period but not included in such interest expense, without duplication,

- (1) interest expense attributable to Capitalized Lease Obligations and the interest component of rent expense associated with Attributable Debt in respect of the relevant lease giving rise thereto, determined as if such lease were a capitalized lease, in accordance with GAAP,
- (2) amortization of debt discount,
- (3) interest in respect of Indebtedness of any other Person that has been Guaranteed by such Person or any Subsidiary, but only to the extent that such interest is actually paid by such Person or any Restricted Subsidiary,
- (4) non-cash interest expense,
- (5) net costs associated with Hedging Obligations,
- (6) the product of
  - (a) mandatory Preferred Stock cash dividends in respect of all Preferred Stock of Subsidiaries of such Person and Disqualified Stock of such Person held by Persons other than such Person or a Subsidiary multiplied by
  - (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case, determined on a consolidated basis in accordance with GAAP, and
- (7) the cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or trust to pay interest to any Person, other than the referent Person or any Subsidiary thereof, in connection with Indebtedness Incurred by such plan or trust; provided, however, that as to the Company, there shall be excluded therefrom any such interest expense of any Unrestricted Subsidiary to the extent the related Indebtedness is not Guaranteed or paid by the Company or any Restricted Subsidiary.

For purposes of the foregoing, gross interest expense shall be determined after giving effect to any net payments made or received by such Person and its Subsidiaries with respect to Interest Rate Agreements.

"Consolidated Net Income" means, as to any Person, for any period, the consolidated net income (loss) of such Person and its Subsidiaries before preferred stock dividends, determined in accordance with GAAP; provided, however, that there shall not be included in such Consolidated Net Income:

- (1) any net income (loss) of any Person if such Person is not (as to the Company) a Restricted Subsidiary and, as to any other Person, an unconsolidated Person, except that
  - (a) subject to the limitations contained in clause (4) below, the referent Person's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the referent Person or a Subsidiary as a dividend or other distribution, subject, in the

case of a dividend or other distribution to a Subsidiary, to the limitations contained in clause (3) below, and

- (b) the net loss of such Person shall be included to the extent of the aggregate Investment of the referent Person or any of its Subsidiaries in such Person;
- (2) any net income (loss) of any Person acquired in a pooling of interests transaction for any period prior to the date of such acquisition;
- (3) any net income (loss) of any Restricted Subsidiary, as to the Company, or of any Subsidiary, as to any other Person, if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Subsidiary, directly or indirectly, to the Company, except that
  - (a) subject to the limitations contained in (4) below, such Person's equity in the net income of any such Subsidiary for such period shall be included in Consolidated Net Income up to the aggregate amount of cash that could have been distributed by such Subsidiary during such period to such Person or another Subsidiary as a dividend, subject, in the case of a dividend that could have been made to another Restricted Subsidiary, to the limitation contained in this clause, and
  - (b) the net loss of such Subsidiary shall be included in determining Consolidated Net Income;
- (4) any charges for costs and expenses associated with the Transactions;
- (5) any extraordinary gain or loss; and
- (6) the cumulative effect of a change in accounting principles.

"Consolidated Tangible Assets" means, as of any date of determination, the total assets, less goodwill and other intangibles, other than patents, trademarks, copyrights, licenses and other intellectual property, shown on the balance sheet of the Company and its Restricted Subsidiaries as of the most recent date for which such a balance sheet is available, determined on a consolidated basis in accordance with GAAP less all write-ups, other than write-ups in connection with acquisitions, subsequent to the date of the indenture in the book value of any asset, except any such intangible assets, owned by the Company or any of its Restricted Subsidiaries.

"Consolidation" means the consolidation of the accounts of each of the Restricted Subsidiaries with those of the Company in accordance with GAAP; provided, however, that "Consolidation" will not include consolidation of the accounts of any Unrestricted Subsidiary, but the interest of the Company in any Unrestricted Subsidiary will be accounted for as an investment. The term "Consolidated" has a correlative meaning.

"Convertible Preferred Stock" means

- (1) the convertible preferred stock of the Company issued to Apollo, resulting in gross proceeds to the Company of \$250 million, and

- (2) the convertible preferred stock of the Company issued to an Affiliate of Bear, Stearns & Co. concurrently with the issuance of the old notes, resulting in gross proceeds to the Company of \$10 million.

"Currency Agreement" means in respect of a Person any foreign exchange contract, currency swap agreement or other similar agreement or arrangement, including derivative agreements or arrangements, as to which such Person is a party or a beneficiary.

"Default" means any event or condition that is, or after notice or passage of time or both would be, an Event of Default.

"Designated Senior Indebtedness" means

- (1) the Bank Indebtedness and
- (2) any other Senior Indebtedness which, at the date of determination, has an aggregate principal amount of, or under which, at the date of determination, the holders thereof are committed to lend up to, at least \$25.0 million and is specifically designated by the Company in the instrument evidencing or governing such Senior Indebtedness as "Designated Senior Indebtedness" for purposes of the indenture.

"Disqualified Stock" means, with respect to any Person, any Capital Stock, excluding the Convertible Preferred Stock, that by its terms, or by the terms of any security into which it is convertible or for which it is exchangeable or exercisable, or upon the happening of any event

- (1) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise,
- (2) is convertible or exchangeable for Indebtedness or Disqualified Stock or
- (3) is redeemable at the option of the holder thereof, in whole or in part, in the case of clauses (1), (2) and (3), on or prior to the 91st day after the Stated Maturity of the Notes.

"EBITDA" means, as to any Person, for any period, the Consolidated Net Income for such period, plus the following to the extent included in calculating such Consolidated Net Income:

- (1) income tax expense,
- (2) Consolidated Interest Expense,
- (3) depreciation expense, other than depreciation expense relating to rental merchandise,
- (4) amortization expense, and
- (5) other non-cash charges or non-cash losses, and minus any gain, but not loss, realized upon the sale or other disposition of any asset of the Company or its Restricted Subsidiaries, including pursuant to any Sale/Leaseback Transaction, that is not sold or otherwise disposed of in the ordinary course of business.



"Equity Offering" means a primary public or private offering or sale of common stock of the Company, the proceeds of which shall be at least \$25.0 million.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"GAAP" means generally accepted accounting principles in the United States of America as in effect on the Issue Date, for purposes of the definitions of the terms "Consolidated Coverage Ratio," "Consolidated Interest Expense," "Consolidated Net Income" and "EBITDA," all defined terms in the indenture to the extent used in or relating to any of the foregoing definitions, and all ratios and computations based on any of the foregoing definitions, and as in effect from time to time, for all other purposes of the indenture, including those set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as approved by a significant segment of the accounting profession. All ratios and computations based on GAAP contained in the indenture shall be computed in conformity with GAAP.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other nonfinancial obligation of any other Person, including any such obligation, direct or indirect, contingent or otherwise, of such Person

- (1) to purchase or pay, or advance or supply funds for the purchase or payment of, such Indebtedness or such other obligation of such other Person, whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise, or
- (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof, in whole or in part; provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business.

The term "Guarantee" used as a verb has a correlative meaning.

"Guarantor Senior Indebtedness" means, with respect to a Subsidiary Guarantor, the following obligations, whether outstanding on the date of the indenture or thereafter issued, without duplication:

- (1) any Guarantee of the Senior Credit Facility by such Subsidiary Guarantor and all other Guarantees by such Subsidiary Guarantor of Senior Indebtedness of the Company or Guarantor Indebtedness for any other Subsidiary Guarantor; and
- (2) all obligations consisting of the principal of and premium, if any, and accrued and unpaid interest, including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Subsidiary Guarantor regardless of whether post filing interest is allowed in such proceeding, on, and fees and other amounts owing in respect of, all other Indebtedness of the Subsidiary Guarantor, unless, in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is expressly provided that the obligations in respect of such

Indebtedness are not senior in right of payment to the obligations of such Subsidiary Guarantor under the Subsidiary Guarantee; provided, however, that Guarantor Senior Indebtedness will not include

- (a) any obligations of such Subsidiary Guarantor to another Subsidiary Guarantor or any other Affiliate of the Subsidiary Guarantor or any such Affiliate's Subsidiaries,
- (b) any liability for Federal, state, local, foreign or other taxes owed or owing by such Subsidiary Guarantor,
- (c) any accounts payable or other liability to trade creditors arising in the ordinary course of business, including Guarantees thereof or instruments evidencing such liabilities, or other current liabilities, other than current liabilities which constitute Bank Indebtedness or the current portion of any long-term Indebtedness which would constitute Senior Indebtedness but for the operation of this clause (c),
- (d) any Indebtedness, Guarantee or obligation of such Subsidiary Guarantor that is expressly subordinate or junior to any other Indebtedness, Guarantee or obligation of such Subsidiary Guarantor, including any Guarantor Senior Subordinated Indebtedness and Guarantor Subordinated Obligations of such Subsidiary Guarantor
- (e) Indebtedness which is represented by redeemable Capital Stock, or
- (f) that portion of any Indebtedness that is incurred in violation of the indenture. If any Designated Senior Indebtedness is disallowed, avoided or subordinated pursuant to the provisions of Section 548 of Title 11 of the United States Code or any applicable state fraudulent conveyance law, such Designated Senior Indebtedness nevertheless will constitute Senior Indebtedness.

"Guarantor Senior Subordinated Indebtedness" means with respect to a Subsidiary Guarantor, the obligations of such Subsidiary Guarantor under the Subsidiary Guarantee and any other Indebtedness of such Subsidiary Guarantor, whether outstanding on the Issue Date or thereafter incurred, that specifically provides that such Indebtedness is to rank *pari passu* in right of payment with the obligations of such Subsidiary Guarantor under the Subsidiary Guarantee and is not expressly subordinated by its terms in right of payment to any Indebtedness of such Subsidiary Guarantor which is not Guarantor Senior Indebtedness of such Subsidiary Guarantor.

"Guarantor Subordinated Obligation" means, with respect to a Subsidiary Guarantor, any Indebtedness of such Subsidiary Guarantor, whether outstanding on the Issue Date or thereafter incurred, which is expressly subordinate in right of payment to the obligations of such Subsidiary Guarantor under its Subsidiary Guarantee pursuant to a written agreement.

"Hedging Obligations" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement.

"Holder" or "Noteholder" means the Person in whose name a Note is registered in the Register.

"Incur" means issue, assume, enter into any Guarantee of, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary, whether by merger, consolidation, acquisition or otherwise, shall be deemed to be Incurred by such Subsidiary at the time it becomes a Subsidiary. Any Indebtedness issued at a discount, including Indebtedness on which interest is payable through the issuance of additional Indebtedness, shall be deemed incurred at the time of original issuance of the Indebtedness at the initial accreted amount thereof.

"Indebtedness" means, with respect to any Person on any date of determination, without duplication:

- (1) the principal of Indebtedness of such Person for borrowed money,
- (2) the principal of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments,
- (3) all reimbursement obligations of such Person, including reimbursement obligations in respect of letters of credit or other similar instruments, the amount of such obligations being equal at any time to the aggregate then undrawn and unexpired amount of such letters of credit or other instruments plus the aggregate amount of drawings thereunder that have not then been reimbursed,
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables, which purchase price is due more than one year after the date of placing such property in final service or taking final delivery and title thereto or the completion of such services,
- (5) all Capitalized Lease Obligations and Attributable Debt of such Person,
- (6) the redemption, repayment or other repurchase amount of such Person with respect to any Disqualified Stock or, if such Person is a Subsidiary of the Company, any Preferred Stock of such Subsidiary, but excluding, in each case, any accrued dividends, the amount of such obligation to be equal at any time to the maximum fixed involuntary redemption, repayment or repurchase price for such Capital Stock, or if such Capital Stock has no fixed price, to the involuntary redemption, repayment or repurchase price therefor calculated in accordance with the terms thereof as if then redeemed, repaid or repurchased, and if such price is based upon or measured by the fair market value of such Capital Stock, such fair market value shall be as determined in good faith by the Board of Directors or the board of directors of the issuer of such Capital Stock,
- (7) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; provided, however, that the amount of Indebtedness of such Person shall be the lesser of
  - (a) the fair market value of such asset at such date of determination and
  - (b) the amount of such Indebtedness of such other Persons,
- (8) all Indebtedness of other Persons to the extent Guaranteed by such Person, and

- (9) to the extent not otherwise included in this definition, net Hedging Obligations of such Person, such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such Hedging Obligation that would be payable by such Person at such time.

The amount of Indebtedness of any Person at any date shall be determined as set forth above or otherwise provided in the indenture, or otherwise in accordance with GAAP.

"Interest Rate Agreement" means with respect to any Person any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement, including derivative agreements or arrangements, as to which such Person is party or a beneficiary; provided, however, any such agreements entered into in connection with the Notes shall not be included.

"Investment" in any Person by any other Person means any direct or indirect advance, loan or other extension of credit, other than to customers, directors, officers or employees of any Person in the ordinary course of business, or capital contribution to, by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others, or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by, such Person. If the Company or any Restricted Subsidiary of the Company sells or otherwise disposes of any Capital Stock of any direct or indirect Restricted Subsidiary of the Company such that, after giving effect to any such sale or disposition, such entity is no longer a Subsidiary of the Company, the Company shall be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of the Capital Stock of such Subsidiary not sold or disposed of.

"Issue Date" means the date on which the old notes were originally issued, which was August 18, 1998.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind, including any conditional sale or other title retention agreement or lease in the nature thereof.

"Moody's" means Moody's Investors Service, Inc., and its successors.

"Net Available Cash" from an Asset Disposition means cash payments received, including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other noncash form, therefrom, in each case net of

- (1) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, including, without limitation, fees and expenses of legal counsel, accountants and financial advisors, and all Federal, state, provincial, foreign and local taxes required to be paid or accrued as a liability under GAAP, as a consequence of such Asset Disposition,

- (2) all payments made on any Indebtedness that is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon such assets, or that must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law be repaid out of the proceeds from such Asset Disposition,
- (3) all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Disposition or to any other Person, other than the Company or any Restricted Subsidiary, owning a beneficial interest in the assets disposed of in such Asset Disposition, and
- (4) appropriate amounts to be provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the assets disposed of in such Asset Disposition and retained by the Company or any Restricted Subsidiary after such Asset Disposition.

"Net Cash Proceeds" means, with respect to any issuance or sale of any securities of the Company or any Subsidiary by the Company or any Subsidiary, or any capital contribution, the cash proceeds of such issuance, sale or contribution net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance, sale or contribution and net of taxes paid or payable as a result thereof.

"Non-Recourse Debt" means Indebtedness

- (1) as to which neither the Company nor any Restricted Subsidiary
  - (a) provides any Guarantee or credit support of any kind, including any undertaking, Guarantee, indemnity, agreement or instrument that would constitute Indebtedness, or
  - (b) is directly or indirectly liable, as a guarantor or otherwise, and
- (2) no default with respect to which, including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary, would permit, upon notice, lapse of time or both, any holder of any other Indebtedness of the Company or any Restricted Subsidiary to declare a default under such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity.

"Officer" means the Chief Executive Officer, President, Chief Financial Officer, any Vice President, Controller, Secretary or Treasurer of the Company.

"Officer's Certificate" means a certificate signed by one Officer.

"Opinion of Counsel" means a written opinion from legal counsel who is acceptable to the Trustee. The counsel may be an employee of or counsel to the Company or the Trustee.

"Permitted Holders" means Apollo, J. Ernest Talley and Mark E. Speese, their respective Affiliates and successors or assigns and any Person acting in the capacity of an underwriter in connection with a public or private offering of the Company's Capital Stock.

"Permitted Investment" means an Investment by the Company or any Restricted Subsidiary in any of the following:

- (1) a Restricted Subsidiary, the Company or a Person that will, upon the making of such Investment, become a Restricted Subsidiary;
- (2) another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Company or a Restricted Subsidiary;
- (3) Temporary Cash Investments or Cash Equivalents;
- (4) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances;
- (5) securities or other Investments received as consideration in connection with RTO Facility Swaps or in sales or other dispositions of property or assets made in compliance with the covenant described under "Certain Covenants -- Limitation on Sales of Assets;"
- (6) securities or other Investments received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary, or as a result of foreclosure, perfection or enforcement of any Lien, or in satisfaction of judgments, including in connection with any bankruptcy proceeding or other reorganization of another Person;
- (7) Investments in existence or made pursuant to legally binding written commitments in existence on the Issue Date;
- (8) Currency Agreements, Interest Rate Agreements and related Hedging Obligations, which obligations are Incurred in compliance with the covenant described under "-- Certain Covenants -- Limitations on Indebtedness;"
- (9) pledges or deposits
  - (a) with respect to leases or utilities provided to third parties in the ordinary course of business or
  - (b) otherwise described in the definition of "Permitted Liens;"
- (10) Investments in a Related Business in an amount not to exceed \$10 million in the aggregate; and
- (11) other Investments in an aggregate amount not to exceed the sum of \$10 million and the aggregate non-cash net proceeds received by the Company from the issue or sale of its Capital Stock, other than Disqualified Stock, subsequent to the Issue Date, other than non-cash proceeds from an issuance or sale of such Capital Stock to a Subsidiary of the Company or an employee stock ownership plan or similar trust; provided, however, that the value of such non-cash net proceeds shall be as conclusively determined by the Board of Directors in good faith, except that in the

event the value of any non-cash net proceeds shall be \$25 million or more, the value shall be as determined in writing by an independent investment banking firm of nationally recognized standing.

"Permitted Liens" means:

- (1) Liens for taxes, assessments or other governmental charges not yet delinquent or the nonpayment of which in the aggregate would not be reasonably expected to have a material adverse effect on the Company and its Restricted Subsidiaries, or that are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the books of the Company or such Subsidiary, as the case may be, in accordance with GAAP;
- (2) carriers', warehousemen's, mechanics', landlords', materialmen's, repairmen's or other like Liens arising in the ordinary course of business in respect of obligations that are not overdue for a period of more than 60 days or that are bonded or that are being contested in good faith and by appropriate proceedings;
- (3) pledges, deposits or liens in connection with workers' compensation, unemployment insurance and other social security legislation and/or similar legislation or other insurance-related obligations, including, without limitation, pledges or deposits securing liability to insurance carriers under insurance or self-insurance arrangements;
- (4) pledges, deposits or Liens to secure the performance of bids, tenders, trade, government or other contracts, other than for borrowed money, obligations for or under or in respect of utilities, leases, licenses, statutory obligations, surety, judgment and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;
- (5) easements, including reciprocal easement agreements, rights-of-way, building, zoning and similar restrictions, utility agreements, covenants, reservations, restrictions, encroachments, changes, and other similar encumbrances or title defects incurred, or leases or subleases granted to others, in the ordinary course of business, which do not in the aggregate materially interfere with the ordinary conduct of the business of the Company and its Subsidiaries, taken as a whole;
- (6) Liens existing on, or provided for under written arrangements existing on, the Issue Date, or, in the case of any such Liens securing Indebtedness of the Company or any of its Subsidiaries existing or arising under written arrangements existing on the Issue Date, securing any Refinancing Indebtedness in respect of such Indebtedness so long as the Lien securing such Refinancing Indebtedness is limited to all or part of the same property or assets, plus improvements, accessions, proceeds or dividends or distributions in respect thereof, that secured, or under such written arrangements could secure, the original Indebtedness;
- (7) Liens securing Hedging Obligations incurred in compliance with the covenant described under "-- Certain Covenants -- Limitation on Indebtedness;"
- (8) Liens arising out of judgments, decrees, orders or awards in respect of which the Company shall in good faith be prosecuting an appeal or proceedings for review

which appeal or proceedings shall not have been finally terminated, or the period within which such appeal or proceedings may be initiated shall not have expired;

(9) Liens securing

(a) Indebtedness incurred in compliance with clause (b)(1), (b)(2) or (b)(5) of the covenant described under "-- Certain Covenants -- Limitation on Indebtedness," or clause (b)(4) thereof, other than Refinancing Indebtedness Incurred in respect of Indebtedness described in paragraph (a) thereof, or

(b) Bank Indebtedness;

(10) Liens on properties or assets of the Company securing Senior Indebtedness;

(11) Liens existing on property or assets of a Person at the time such Person becomes a Subsidiary of the Company, or at the time the Company or a Restricted Subsidiary acquires such property or assets; provided, however, that such Liens are not created in connection with, or in contemplation of, such other Person becoming such a Subsidiary, or such acquisition of such property or assets, and that such Liens are limited to all or part of the same property or assets, plus improvements, accessions, proceeds or dividends or distributions in respect thereof, that secured, or, under the written arrangements under which such Liens arose, could secure, the obligations to which such Liens relate;

(12) Liens on Capital Stock of an Unrestricted Subsidiary that secure Indebtedness or other obligations of such Unrestricted Subsidiary;

(13) Liens securing the Notes; and

(14) Liens securing Refinancing Indebtedness Incurred in respect of any Indebtedness secured by, or securing any refinancing, refunding, extension, renewal or replacement, in whole or in part, of any other obligation secured by, any other Permitted Liens, provided that any such new Lien is limited to all or part of the same property or assets, plus improvements, accessions, proceeds or dividends or distributions in respect thereof, that secured, or, under the written arrangements under which the original Lien arose, could secure, the obligations to which such Liens relate.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, limited liability company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Preferred Stock" as applied to the Capital Stock of any corporation means Capital Stock of any class or classes, however designated, that is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such corporation, over shares of Capital Stock of any other class of such corporation.

"Purchase Money Obligations" means any Indebtedness of the Company or any Restricted Subsidiary incurred to finance the acquisition, construction or capital improvement of any property or business, including Indebtedness incurred within 90 days following such acquisition or construction, including Indebtedness of a Person existing at



the time such Person becomes a Restricted Subsidiary or assumed by the Company or a Restricted Subsidiary in connection with the acquisition of assets from such Person; provided, however, that any Lien on such Indebtedness shall not extend to any property other than the property so acquired or constructed.

"Refinancing Indebtedness" means Indebtedness that is Incurred to refund, refinance, replace, renew, repay or extend, including pursuant to any defeasance or discharge mechanism, (collectively, "refinances," and "refinanced" shall have a correlative meaning) any Indebtedness existing on the date of the indenture or Incurred in compliance with the indenture, including Indebtedness of the Company that refinances Indebtedness of any Restricted Subsidiary, to the extent permitted in the indenture, and Indebtedness of any Restricted Subsidiary that refinances Indebtedness of another Restricted Subsidiary, including Indebtedness that refinances Refinancing Indebtedness; provided, however, that

- (1) the Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being refinanced,
- (2) the Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being refinanced and
- (3) such Refinancing Indebtedness is Incurred in an aggregate principal amount, or if issued with original issue discount, an aggregate issue price, that is equal to or less than the aggregate principal amount, or if issued with original issue discount, the aggregate accreted value, then outstanding of the Indebtedness being refinanced, plus fees, underwriting discounts, premiums and other costs and expenses incurred in connection with such Refinancing Indebtedness; provided further, however, that Refinancing Indebtedness shall not include
  - (a) Indebtedness of a Restricted Subsidiary that refinances Indebtedness of the Company or
  - (b) Indebtedness of the Company or a Restricted Subsidiary that refinances Indebtedness of an Unrestricted Subsidiary.

"Related Business" means those businesses, other than the car rental business, in which the Company or any of its Subsidiaries is engaged on the date of the indenture or that are reasonably related or incidental thereto.

"Representative" means the trustee, agent or representative, if any, for an issue of Senior Indebtedness.

"Restricted Subsidiary" means Thorn Americas, Inc. and ColorTyme, Inc.

"Revolving Credit Facility" means the revolving credit facility under the Senior Credit Facility, which may include any swing line or letter of credit facility or subfacility thereunder.

"RTO Facility" means any facility through which the Company or any of its Restricted Subsidiaries conducts the business of renting merchandise to its customers and any facility through which a franchise of the Company or any of its Subsidiaries conducts the business of renting merchandise to customers.

"RTO Facility Swap" means an exchange of assets, including Capital Stock of a Subsidiary or the Company, of substantially equivalent fair market value, as conclusively determined in good faith by the Board of Directors, by the Company or a Restricted Subsidiary for one or more RTO Facilities or for cash, Capital Stock, Indebtedness or other securities of any Person owning or operating one or more RTO Facilities and primarily engaged in a Related Business; provided, however, that any Net Cash Proceeds received by the Company or any Restricted Subsidiary in connection with any such transaction must be applied in accordance with the covenant described under "-- Certain Covenants -- Limitation on Sale of Assets."

"Sale/Leaseback Transaction" means an arrangement relating to property now owned or hereafter acquired by the Company or a Restricted Subsidiary whereby the Company or such Restricted Subsidiary transfers such property to a Person and the Company or such Restricted Subsidiary leases it from such Person, other than leases

- (1) between the Company and a Restricted Subsidiary or
- (2) required to be classified and accounted for as capitalized leases for financial reporting purposes in accordance with GAAP.

"SEC" means the Securities and Exchange Commission.

"Secured Indebtedness" means any Indebtedness of the Company secured by a Lien.

"Senior Credit Agreement" means the credit agreement dated as of August 5, 1998, among the Company, the banks and other financial institutions party thereto from time to time, Comerica, N.A. as the documentation agent, NationsBank, N.A. as syndication agent and Chase, as administrative agent, as such agreement may be assumed by any successor in interest, and as such agreement may be amended, supplemented, waived or otherwise modified from time to time, or refunded, refinanced, restructured, replaced, renewed, repaid, increased or extended from time to time (whether in whole or in part, whether with the original agent and lenders or other agents and lenders or otherwise, and whether provided under the original Senior Credit Agreement or otherwise).

"Senior Credit Facility" means the collective reference to the Senior Credit Agreement, any Loan Documents, as defined therein, any notes and letters of credit issued pursuant thereto and any guarantee and collateral agreement, patent and trademark security agreement, mortgages, letter of credit applications and other security agreements and collateral documents, and other instruments and documents, executed and delivered pursuant to or in connection with any of the foregoing, in each case as the same may be amended, supplemented, waived or otherwise modified from time to time, or refunded, refinanced, restructured, replaced, renewed, repaid, increased or extended from time to time, whether in whole or in part, whether with the original agent and lenders or other agents and lenders or otherwise, and whether provided under the original Senior Credit Agreement or otherwise. Without limiting the generality of the foregoing, the term "Senior Credit Facility" shall include any agreement

- (1) changing the maturity of any Indebtedness incurred thereunder or contemplated thereby,

- (2) adding Subsidiaries of the Company as additional borrowers or guarantors thereunder,
- (3) increasing the amount of Indebtedness incurred thereunder or available to be borrowed thereunder or
- (4) otherwise altering the terms and conditions thereof.

"Senior Indebtedness" means the following obligations, whether outstanding on the date of the indenture or thereafter issued, without duplication:

- (1) all obligations consisting of Bank Indebtedness; and
- (2) all obligations consisting of the principal of and premium, if any, and accrued and unpaid interest, including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Company regardless of whether postfiling interest is allowed in such proceeding, on, and fees and other amounts owing in respect of, all other Indebtedness of the Company, unless, in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that the obligations in respect of such Indebtedness are not superior in right of payment to the Notes; provided, however, that Senior Indebtedness shall not include
  - (a) any obligation of the Company to any Subsidiary or any other Affiliate of the Company, or any such Affiliate's Subsidiaries,
  - (b) any liability for Federal, state, foreign, local or other taxes owed or owing by the Company,
  - (c) any accounts payable or other liability to trade creditors arising in the ordinary course of business, including Guarantees thereof or instruments evidencing such liabilities, or other current liabilities, other than current liabilities which constitute Bank Indebtedness or the current portion of any long-term Indebtedness which would constitute Senior Indebtedness but for the operation of this clause (c),
  - (d) any Indebtedness, Guarantee or obligations of the Company that is expressly subordinate or junior to any other Indebtedness, Guarantee or obligation of the Company,
  - (e) Indebtedness which is represented by redeemable Capital Stock or
  - (f) that portion of any Indebtedness that is incurred in violation of the indentures. If any Designated Senior Indebtedness is disallowed, avoided or subordinated pursuant to the provisions of Section 548 of Title 11 of the United States Code or any applicable state fraudulent conveyance law, such Designated Senior Indebtedness nevertheless will constitute Senior Indebtedness.

"Senior Subordinated Indebtedness" means the Notes and any other Indebtedness of the Company that

- (1) specifically provides that such Indebtedness is to rank pari passu with the Notes or is otherwise entitled Senior Subordinated Indebtedness, and
- (2) is not subordinated by its terms to any Indebtedness or other obligation of the Company that is not Senior Indebtedness.

"Significant Subsidiary" means

- (1) each Subsidiary that for the most recent fiscal year of such Subsidiary had consolidated revenues greater than \$10.0 million or as at the end of such fiscal year had assets or liabilities greater than \$10.0 million, and
- (2) any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary.

"S&P" means Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc., and its successors.

"Stated Maturity" means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision, but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency beyond the control of the issuer unless such contingency has occurred.

"Subordinated Obligation" means any Indebtedness of the Company, whether outstanding on the date of the indenture or thereafter Incurred, which is subordinated or junior in right of payment to the Notes pursuant to a written agreement.

"Subsidiary" of any Person means any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests, including partnership interests, entitled, without regard to the occurrence of any contingency, to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by

- (1) such Person or
- (2) one or more Subsidiaries of such Person.

"Subsidiary Guarantee" means, individually, any Guarantee of payment of the Notes by a Subsidiary Guarantor pursuant to the terms of the indenture, and, collectively, all such Guarantees. Each such Subsidiary Guarantee will be in the form prescribed in the indenture.

"Subsidiary Guarantor" means

- (1) ColorTyme, Inc. and Advantage Companies, Inc. and
- (2) any Restricted Subsidiary created or acquired by the Company after the Issue Date.

"Successor Company" shall have the meaning assigned thereto in clause (1) under "-- Merger and Consolidation."

"Temporary Cash Investments" means any of the following:

- (1) any investment in direct obligations
  - (a) of the United States of America or any agency thereof or obligations Guaranteed by the United States of America or any agency thereof or
  - (b) of any foreign country recognized by the United States of America rated at least "A" by S&P or "A1" by Moody's,
- (2) investments in time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company that is organized under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America having capital and surplus aggregating in excess of \$250 million, or the foreign currency equivalent thereof, and whose long-term debt is rated "A" by S&P or "A-1" by Moody's,
- (3) repurchase obligations with a term of not more than 180 days for underlying securities of the types described in clause (1) or (2) above entered into with a bank meeting the qualifications described in clause (2) above,
- (4) Investments in commercial paper, maturing not more than 180 days after the date of acquisition, issued by a corporation, other than an Affiliate of the Company, organized and in existence under the laws of the United States of America or any foreign country recognized by the United States of America with a rating at the time as of which any Investment therein is made of "P-1," or higher, according to Moody's or "A-1," or higher, according to S&P,
- (5) Investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or "A" by Moody's,
- (6) any money market deposit accounts issued or offered by a domestic commercial bank or a commercial bank organized and located in a country recognized by the United States of America, in each case, having capital and surplus in excess of \$250 million, or the foreign currency equivalent thereof, or investments in money market funds complying with the risk limiting conditions of Rule 2a-7, or any short-term successor rule, of the SEC, under the Investment Company Act of 1940, as amended, and
- (7) similar short-term investments approved by the Board of Directors in the ordinary course of business.

"Term Loan Facility" means the term loan facilities provided under the Senior Credit Facility.

"Thorn Americas Acquisition" means the acquisition of Thorn Americas by the Company.

"TIA" means the Trust Indenture Act of 1939 (15 U.S.C. sec.sec.77aaa-77bbb) as in effect on the date of the indenture.

"Trade Payables" means, with respect to any Person, any accounts payable or any indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person arising in the ordinary course of business in connection with the acquisition of goods or services.

"Transactions," means collectively the Thorn Americas Acquisition, the offering of the Notes, the initial borrowings under the Senior Credit Facility, and all other transactions relating to the Thorn Americas Acquisition or the financing thereof.

"Trustee" means the party named as such in the indenture until a successor replaces it and, thereafter, means the successor.

"Trust Officer" means the Chairman of the Board, the President or any other officer or assistant officer of the Trustee assigned by the Trustee to administer its corporate trust matters.

"Unrestricted Subsidiary" means

- (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided below and
- (2) any Subsidiary of an Unrestricted Subsidiary. The Board of Directors may designate any Subsidiary of the Company, including any newly acquired or newly formed Subsidiary of the Company, to be an Unrestricted Subsidiary unless such Subsidiary or any of its Subsidiaries owns any Capital Stock or Indebtedness of, or owns or holds any Lien on any property of, the Company or any other Subsidiary of the Company that is not a Subsidiary of the Subsidiary to be so designated; provided, however, that either
  - (a) the Subsidiary to be so designated has total consolidated assets of \$10,000 or less or
  - (b) if such Subsidiary has consolidated assets greater than \$10,000, then such designation would be permitted under "-- Certain Covenants -- Limitation on Restricted Payments." The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided, however, that immediately after giving effect to such designation
    - the Company could incur at least \$1.00 of additional Indebtedness under paragraph (a) in the covenant described under "-- Certain Covenants -- Limitation on Indebtedness" and
    - no Default or Event of Default shall have occurred and be continuing. Any such designation by the Board of Directors shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Company's Board of Directors giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions.

"Voting Stock" of an entity means all classes of Capital Stock of such entity then outstanding and normally entitled to vote in the election of directors or all interests in such entity with the ability to control the management or actions of such entity.

"Wholly Owned Subsidiary" means a Restricted Subsidiary of the Company all the Capital Stock of which, other than directors' qualifying shares, is owned by the Company or another Wholly Owned Subsidiary.

#### CERTAIN BOOK-ENTRY PROCEDURES FOR THE GLOBAL NOTES

Except as set forth below, the exchange notes will be represented by one permanent global registered note in global form, without interest coupons (the "Global Note"). The Global Note will be deposited with, or on behalf of, The Depository Trust Company ("DTC") and registered in the name of Cede & Co., as nominee of DTC, or will remain in the custody of the Trustee pursuant to the FAST Balance Certificate Agreement between DTC and the Trustee.

The descriptions of the operations and procedures of DTC, Euroclear and Cede set forth below are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to change by them from time to time. Neither Rent-A-Center nor the Initial Purchasers takes any responsibility for these operations or procedures, and investors are urged to contact the relevant system or its participants directly to discuss these matters.

DTC has advised Rent-A-Center that it is

- a limited purpose trust company organized under the laws of the State of New York,
- a "banking organization" within the meaning of the New York Banking Law,
- a member of the Federal Reserve System,
- a "clearing corporation" within the meaning of the Uniform Commercial Code, as amended, and
- a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC was created to hold securities for its participants (collectively, the "Participants") and facilitates the clearance and settlement of securities transactions between Participants through electronic book-entry changes to the accounts of its Participants, thereby eliminating the need for physical transfer and delivery of certificates. DTC's Participants include securities brokers and dealers, including the Initial Purchasers, banks and trust companies, clearing corporations and certain other organizations. Indirect access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies (collectively, the "Indirect Participants") that clear through or maintain a custodial relationship with a Participant, either directly or indirectly. Investors who are not Participants may beneficially own securities held by or on behalf of DTC only through Participants or Indirect Participants.

Rent-A-Center expects that pursuant to procedures established by DTC (A) upon deposit of each Global Note, DTC will credit the accounts of Participants designated by the Initial Purchasers with an interest in the Global Note, and (B) ownership of the Notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC, with respect to the interests of Participants, and the records of Participants and the Indirect Participants, with respect to the interests of persons other than Participants.

The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. Accordingly, the ability to transfer interests in the Notes represented by a Global Note to such persons may be limited. In addition, because DTC can act only on behalf of its Participants, who in turn act on behalf of persons who hold interests through Participants, the ability of a person having an interest in notes represented by a Global Note to pledge or transfer such interest to persons or entities that do not participate in DTC's system, or to otherwise take actions in respect of such interest, may be affected by the lack of a physical definitive security in respect of such interest.

So long as DTC or its nominee is the registered owner of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the notes represented by the Global Note for all purposes under the indenture. Except as provided below, owners of beneficial interests in a Global Note will not be entitled to have notes represented by such Global Note registered in their names, will not receive or be entitled to receive physical delivery of Certificated Notes, and will not be considered the owners or holders thereof under the indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the Trustee thereunder. Accordingly, each holder owning a beneficial interest in a Global Note must rely on the procedures of DTC and, if such holder is not a Participant or an Indirect Participant, on the procedures of the Participant through which such holder owns its interest, to exercise any rights of a holder of notes under the indenture or such Global Note. Rent-A-Center understands that under existing industry practice, in the event that Rent-A-Center requests any action of holders of notes, or a holder that is an owner of a beneficial interest in a Global Note desires to take any action that DTC, as the holder of such Global Note, is entitled to take, DTC would authorize the Participants to take such action and the Participants would authorize holders owning through such Participants to take such action or would otherwise act upon the instruction of such holders. Neither Rent-A-Center nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of notes by DTC, or for maintaining, supervising or reviewing any records of DTC relating to such notes.

Payments with respect to the principal of, and premium, if any, Liquidated Damages, if any, and interest on, any notes represented by a Global Note registered in the name of DTC or its nominee on the applicable record date will be payable by the Trustee to or at the direction of DTC or its nominee in its capacity as the registered holder of the Global Note representing such notes under the indenture. Under the terms of the indenture, Rent-A-Center and the Trustee may treat the persons in whose names the notes, including the Global Notes, are registered as the owners thereof for the purpose of receiving payment thereon and for any and all other purposes whatsoever. Accordingly, neither Rent-A-Center nor the Trustee has or will have any responsibility or liability for the payment of such amounts to owners of beneficial interests in a Global Note (including principal, premium, if any, Liquidated Damages, if any, and interest). Payments by the Participants and the Indirect Participants to the owners of beneficial interests in a Global Note will be governed by standing instructions and customary industry practice and will be the responsibility of the Participants or the Indirect Participants and DTC.

Transfers between Participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds. Transfers between participants in



Euroclear or Cedel will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the notes, cross-market transfers between the Participants in DTC, on the one hand, and Euroclear or Cedel participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Cedel, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Cedel, as the case may be, by the counter party in such system in accordance with the rules and procedures and within the established deadlines, Brussels time, of such system. Euroclear or Cedel, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Cedel participants may not deliver instructions directly to the depositories for Euroclear or Cedel.

Because of time zone differences, the securities account of a Euroclear or Cedel participant purchasing an interest in a Global Note from a Participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Cedel participant, during the securities settlement processing day, which must be a business day for Euroclear and Cedel, immediately following the settlement date of DTC. Cash received in Euroclear or Cedel as a result of sales of interest in a Global Security by or through a Euroclear or Cedel participant to a Participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Cedel cash account only as of the business day for Euroclear or Cedel following DTC's settlement date.

Although DTC, Euroclear and Cedel have agreed to the foregoing procedures to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear and Cedel, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. Neither Rent-A-Center nor the Trustee will have any responsibility for the performance by DTC, Euroclear or Cedel or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

#### CERTIFICATED NOTES

If (A) Rent-A-Center notifies the Trustee in writing that DTC is no longer willing or able to act as a depository or DTC ceases to be registered as a clearing agency under the Exchange Act and a successor depository is not appointed within 90 days of such notice or cessation, (B) Rent-A-Center, at its option, notifies the Trustee in writing that it elects to cause the issuance of Notes in definitive form under the indenture, or (C) upon the occurrence of certain other events as provided in the indenture, then, upon surrender by DTC of the Global Notes, Certificated Notes will be issued to each person that DTC identifies as the beneficial owner of the Notes represented by the Global Notes. Upon any such issuance, the Trustee is required to register such Certificated Notes in the name of such person or persons, or the nominee of any thereof, and cause the same to be delivered thereto.

Neither Rent-A-Center nor the Trustee shall be liable for any delay by DTC or any Participant or Indirect Participant in identifying the beneficial owners of the related notes and each such person may conclusively rely on, and shall be protected in relying on, instructions from DTC for all purposes, including with respect to the registration and delivery, and the respective principal amounts, of the notes to be issued.

## OLD NOTES EXCHANGE AND REGISTRATION RIGHTS AGREEMENT

Rent-A-Center and the initial purchasers entered into the Exchange and Registration Rights Agreement on August 18, 1998. Pursuant to this agreement, Rent-A-Center agreed to (A) file with the SEC on or prior to 60 days after the issue date a registration statement, relating to the exchange offer for the old notes under the Securities Act, and (B) use its reasonable efforts to cause the exchange offer registration statement to be declared effective under the Securities Act within 150 days after the issue date. As soon as practicable after the effectiveness of the exchange offer registration statement, Rent-A-Center will offer to the holders of transfer restricted securities, as defined below, who are not prohibited by any law or policy of the SEC from participating in the exchange offer, the opportunity to exchange their transfer restricted securities for an issue of the exchange notes which are identical in all material respects to the old notes, except that the exchange notes will not contain terms with respect to transfer restrictions and that would be registered under the Securities Act. Rent-A-Center will keep the exchange offer open for not less than 30 days or longer, if required by applicable law after the date on which notice of the exchange offer is mailed to the holders of the notes.

If:

- because of any change in law or applicable interpretations thereof by the staff of the SEC, Rent-A-Center is not permitted to effect the exchange offer as contemplated hereby;
- any old notes validly tendered pursuant to the exchange offer are not exchanged for exchange notes within 180 days after the issue date;
- any initial purchaser so requests with respect to old notes not eligible to be exchanged for exchange notes in the exchange offer;
- any applicable law or interpretations do not permit any holder of old notes to participate in the exchange offer;
- any holder of old notes that participates in the exchange offer does not receive freely transferable exchange notes in exchange for tendered old notes; or
- Rent-A-Center so elects.

Then Rent-A-Center will file with the SEC the shelf registration statement to cover resales of transfer restricted securities by such holders who satisfy certain conditions relating to the provision of information in connection with the shelf registration statement.

For purposes of the foregoing, "transfer restricted securities" means each old note until (A) the date on which such old note has been exchanged for a freely transferable exchange note in the exchange offer; (B) the date on which such old note has been effectively registered under the Securities Act and disposed of in accordance with the shelf registration statement, or (C) the date on which such old note is distributed to the public pursuant to Rule 144 under the Securities Act or is salable pursuant to Rule 144(k) under the Securities Act.

Rent-A-Center will use its reasonable efforts to have the exchange offer registration statement or, if applicable, the shelf registration statement declared effective by the SEC as promptly as practicable after the filing thereof. Unless the exchange offer would not be

permitted by a policy of the SEC, Rent-A-Center will commence the exchange offer and use its reasonable efforts to consummate the exchange offer as promptly as practicable, but in any event prior to 180 days after the issue date. If necessary, Rent-A-Center will use its commercially reasonable efforts to keep the shelf registration statement effective for a period of two years after the issue date.

If (A) the applicable exchange offer registration statement or, if applicable, the shelf registration statement, is not filed with the SEC on or prior to 60 days after the issue date; (B) the applicable exchange offer registration statement or, if applicable, the shelf registration statement, is not declared effective within 150 days after the Issue Date; (C) the exchange offer is not consummated on or prior to 180 days after the issue date; or (D) the shelf registration statement is filed and declared effective within 150 days after the issue date but shall thereafter cease to be effective, at any time that Rent-A-Center is obligated to maintain the effectiveness thereof, without being succeeded within 45 days by an additional registration statement filed and declared effective, Rent-A-Center will be obligated to pay liquidated damages to each holder of transfer restricted securities, during the period of one or more such above events, in an amount equal to \$0.192 per week per \$1,000 principal amount of the notes constituting transfer restricted securities held by such holder until the applicable registration statement is filed, the exchange offer registration statement is declared effective and the exchange offer is consummated or the shelf registration statement is declared effective or again becomes effective, as the case may be. All accrued liquidated damages shall be paid to holders in the same manner as interest payments on the notes on semi-annual payment dates which correspond to interest payment dates for the notes. The accrual of liquidated damages will cease on the day on which all registration defaults are cured.

The exchange and registration rights agreement also provides that Rent-A-Center shall (A) make available for a period of 180 days after the consummation of the exchange offer a prospectus meeting the requirements of the Securities Act to any broker-dealer for use in connection with any resale of any such exchange notes, and (B) pay all expenses incident to the exchange offer, including the expense of one counsel to the holders of the notes and will indemnify certain holders of the notes, including any broker-dealer, against certain liabilities, including liabilities under the Securities Act. A broker-dealer that delivers such a prospectus to purchasers in connection with such resales will be subject to certain of the civil liability provisions under the Securities Act and will be bound by the provisions of the exchange and registration rights agreement, including certain indemnification rights and obligations.

Each holder of old notes who wishes to exchange such old notes for exchange notes in the exchange offer will be required to make certain representations, including representations that (A) any exchange notes to be received by it will be acquired in the ordinary course of its business; (B) it has no arrangement or understanding with any person to participate in the distribution of the exchange notes; and (C) it is not an "affiliate," as defined in Rule 405 under the Securities Act, of Rent-A-Center, or if it is an affiliate, that it will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable.

If the holder is not a broker-dealer, it will be required to represent that it is not engaged in, and does not intend to engage in, the distribution of the exchange notes. If the holder is a broker-dealer that will receive exchange notes for its own account in exchange for notes

that were acquired as a result of market-making activities or other trading activities, it will be required to acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes.

Holders of the old notes will be required to make certain representations to Rent-A-Center in order to participate in the exchange offer and will be required to deliver information to be used in connection with the shelf registration statement and benefit from the provisions regarding liquidated damages set forth in the preceding paragraphs. A holder who sells old notes pursuant to the shelf registration statement generally will be required to be named as a selling securityholder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will be bound by the provisions of the exchange and registration rights agreement which are applicable to such a holder, including certain indemnification obligations.

For so long as the old notes are outstanding, Rent-A-Center will continue to provide to holders of the old notes and to prospective purchasers of the old notes the information required by Rule 144A(d)(4) under the Securities Act.

The foregoing description of the exchange and registration rights agreement is a summary only, does not purport to be complete and is qualified in its entirety by reference to all provisions of the exchange and registration rights agreement which is filed as an exhibit to the registration statement of which this prospectus is a part. However, Rent-A-Center believes that this prospectus disclosure presents all the material terms of the exchange and registration rights agreement.

CERTAIN U.S. FEDERAL  
INCOME TAX CONSEQUENCES

GENERAL

The following is a summary of certain U.S. federal income tax consequences associated with the exchange of old notes for exchange notes pursuant to the exchange offer, and does not purport to be a complete analysis of all potential tax effects. This summary is based upon the Internal Revenue Code of 1986, as amended, existing and proposed regulations thereunder, published rulings and court decisions, all as in effect and existing on the date hereof and all of which are subject to change at any time, which change may be retroactive. This summary is not binding on the Internal Revenue Service or on the courts, and no ruling will be requested from the Internal Revenue Service on any issues described below. There can be no assurance that the Internal Revenue Service will not take a different position concerning the matters discussed below.

This summary applies only to those persons who are the initial holders of old notes, who acquired old notes for cash and who hold old notes as capital assets, and assumes that the old notes were not issued with "original issue discount," as defined in the Internal Revenue Code. It does not address the tax consequences to taxpayers who are subject to special rules, such as financial institutions, tax-exempt organizations, insurance companies and persons who are not "U.S. Holders", or the effect of any applicable U.S. federal estate and gift tax laws or state, local or foreign tax laws. For purposes of this summary, a "U.S. Holder" means a beneficial owner of a note who purchased the notes pursuant to the offering that is for U.S. federal income tax purposes

- - a citizen or resident of the United States;
- - a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof;
- - an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- - a trust if (A) a court within the United States is able to exercise primary supervision over the administration of the trust, and (B) one or more U.S. fiduciaries have the authority to control all substantial decisions of the trust.

EXCHANGE OFFER

The exchange of old notes for exchange notes pursuant to the exchange offer should not constitute a taxable exchange for U.S. federal income tax purposes. Accordingly, a U.S. Holder should not recognize gain or loss upon the receipt of exchange notes pursuant to the exchange offer, and a U.S. holder should be required to include interest on the exchange notes in gross income in the manner and to the extent interest income was includible under the old notes. A U.S. holder's holding period for the exchange notes should include the holding period of the old notes exchanged therefor, and such holder's adjusted basis in the exchange notes should be the same as the basis of the old notes exchanged therefor immediately before the exchange.

The foregoing discussion is included herein for general information only. Accordingly, each holder should consult with its own tax advisors concerning the tax consequences of the exchange offer with respect to its particular situation, including the application and effect of state, local and foreign income and other tax laws.

## PLAN OF DISTRIBUTION

Based on interpretations by the SEC set forth in no-action letters issued to third parties, Rent-A-Center believes that exchange notes issued pursuant to the exchange offer in exchange for the old notes may be offered for resale, resold and otherwise transferred by holders thereof, other than any holder which is (A) an "affiliate" of Rent-A-Center within the meaning of Rule 405 under the Securities Act, (B) a broker-dealer who acquired notes directly from Rent-A-Center, or (C) broker-dealers who acquired notes as a result of market-making or other trading activities, without compliance with the registration and prospectus delivery provisions of the Securities Act provided that such exchange notes are acquired in the ordinary course of such holders' business, and such holders are not engaged in, and do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of such exchange notes. However, broker-dealers receiving exchange notes in the exchange offer will be subject to a prospectus delivery requirement with respect to resales of such exchange notes. To date, the SEC has taken the position that these broker-dealers may fulfill their prospectus delivery requirements with respect to transactions involving an exchange of securities such as the exchange pursuant to the exchange offer, other than a resale of an unsold allotment from the sale of the old notes to the initial purchasers, with the prospectus contained in the exchange offer registration statement. Pursuant to the exchange and registration rights agreement, Rent-A-Center has agreed to permit these broker-dealers to use this prospectus in connection with the resale of such exchange notes. Rent-A-Center has agreed that, for a period of 180 days after the expiration date, it will make this prospectus, and any amendment or supplement to this prospectus, available to any broker-dealer that requests such documents in the letter of transmittal.

Each holder of the old notes who wishes to exchange its old notes for exchange notes in the exchange offer will be required to make certain representations to Rent-A-Center as set forth in "The Exchange Offer -- Purpose and Effect of the Exchange Offer."

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for old notes where such old notes were acquired as a result of market-making activities or other trading activities. Rent-A-Center has agreed that, for a period of 180 days after the consummation of the exchange offer, it will use its commercially reasonable efforts to make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. In addition, until April , 1999, all dealers effecting transactions in the exchange notes may be required to deliver a prospectus.

Rent-A-Center will not receive any proceeds from any sale of exchange notes by broker-dealers. Exchange notes received by broker-dealers for their own account pursuant to the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the exchange notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or at negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such

broker-dealer or the purchasers of any such exchange notes. Any broker-dealer that resells exchange notes that were received by it for its own account pursuant to the exchange offer and any broker or dealer that participates in a distribution of such exchange notes may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on any such resale of exchange notes and any commission or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

For a period of 90 days after the consummation of the exchange offer, Rent-A-Center will promptly send additional copies of this prospectus and any amendment or supplement to this prospectus to any broker-dealer that requests such documents in the letter of transmittal. Rent-A-Center has agreed to pay all expenses incident to the exchange offer, including the expenses of one counsel for the holders of the notes, other than commissions or concessions of any broker-dealers and will indemnify the holders of the Securities, including any broker-dealers, against certain liabilities, including liabilities under the Securities Act.

#### EXPERTS

The audited financial statements of Renters Choice, Inc. included in this prospectus and registration statement for the years ended December 31, 1995, 1996 and 1997 have been audited by Grant Thornton LLP, independent certified public accountants, as stated in their reports included herein.

The consolidated financial statements of THORN Americas, Inc. and subsidiaries at March 31, 1998 and 1997, and for each of the three years in the period ended March 31, 1998, appearing in this prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

The audited financial statements of Central Rents, Inc. included in this prospectus and elsewhere in the registration statement have been audited by Arthur Andersen LLP, independent public accountants, to the extent and for the periods as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

#### LEGAL MATTERS

The validity of the exchange notes offered hereby will be passed upon for Rent-A-Center by Winstead Sechrest & Minick P.C., Dallas, Texas.



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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders  
Renters Choice, Inc.

We have audited the accompanying consolidated balance sheets of Renters Choice, Inc. and Subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Renters Choice, Inc. and Subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

GRANT THORNTON LLP

Dallas, Texas  
February 12, 1998

## RENTERS CHOICE, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,		SEPTEMBER 30,
	1996	1997	1998
	(UNAUDITED)		
	(IN THOUSANDS OF DOLLARS)		
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ 5,920	\$ 4,744	\$ 90,483
Rental merchandise, net			
On rent.....	71,620	89,007	371,018
Held for rent.....	23,490	23,752	110,963
Accounts receivable -- trade.....	3,021	2,839	2,676
Prepaid expenses and other assets.....	4,369	3,164	89,646
Property assets, net.....	12,716	17,700	89,001
Deferred income taxes.....	6,138	6,479	163,109
Intangible assets, net.....	47,193	61,183	695,266
Due from seller of acquired business.....	--	--	34,651
	-----	-----	-----
	\$174,467	\$208,868	\$1,646,813
	=====	=====	=====
<b>LIABILITIES</b>			
Senior term debt.....	\$ 14,435	\$ 26,280	\$ 716,880
Subordinated notes payable.....	--	--	175,000
Accounts payable -- trade.....	17,047	11,935	93,173
Accrued liabilities.....	12,924	17,008	250,877
Other debt.....	4,558	892	1,032
Preferred dividends payable.....	--	--	1,496
	-----	-----	-----
	48,964	56,115	1,238,458
<b>COMMITMENTS AND CONTINGENCIES.....</b>			
	--	--	--
<b>PREFERRED STOCK</b>			
Redeemable preferred stock, net of placement costs, \$0.01 par value, 5,000,000 shares authorized; 260,000 shares issued and outstanding.....	--	--	259,476
<b>STOCKHOLDERS' EQUITY</b>			
Common stock, \$0.01 par value; 50,000,000 shares authorized; 24,791,085 and 24,904,721 shares issued in 1996 and 1997, respectively, and 25,053,233 shares at September 30, 1998.....	248	249	251
Additional paid-in capital.....	98,010	99,381	100,973
Retained earnings.....	27,245	53,123	72,655
	-----	-----	-----
	125,503	152,753	173,879
Treasury stock, 990,099 shares at cost.....	--	--	(25,000)
	-----	-----	-----
	125,503	152,753	148,879
	-----	-----	-----
	\$174,467	\$208,868	\$1,646,813
	=====	=====	=====

The accompanying notes are an integral part of these statements.

## RENTERS CHOICE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EARNINGS

	YEARS ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1997	1997	1998
	(UNAUDITED)				
	(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)				
Revenue					
Store					
Rentals and fees.....	\$126,264	\$198,486	\$275,344	\$200,970	\$400,793
Merchandise sales.....	6,383	10,604	14,125	10,774	24,329
Other.....	642	687	679	525	2,094
Franchise					
Merchandise sales.....	--	25,229	37,385	23,971	28,440
Royalty income and fees.....	--	2,959	4,008	3,013	3,777
	133,289	237,965	331,541	239,253	459,433
Operating expenses					
Direct store expenses					
Depreciation of rental merchandise.....	29,640	42,978	57,223	42,271	91,382
Cost of merchandise sold.....	4,954	8,357	11,365	8,355	16,600
Salaries and other expenses.....	70,012	116,577	162,458	119,339	238,577
Franchise operating expense					
Cost of merchandise sales.....	--	24,010	35,841	22,929	27,318
	104,606	191,922	266,887	192,894	373,877
General and administrative expenses.....	5,766	10,111	13,304	9,597	18,054
Amortization of intangibles.....	3,109	4,891	5,412	4,016	7,767
Total operating expenses.....	113,481	206,924	285,603	206,507	399,698
Operating profit.....	19,808	31,041	45,938	32,746	59,735
Interest expense.....	2,202	606	2,194	1,402	18,469
Nonrecurring financing costs.....	--	--	--	--	5,017
Interest income.....	(890)	(667)	(304)	(256)	(1,932)
Earnings before income taxes.....	18,496	31,102	44,048	31,600	38,181
Income tax expense.....	7,784	13,076	18,170	13,108	17,153
NET EARNINGS.....	10,712	18,026	25,878	18,492	21,028
Preferred dividends.....	--	--	--	--	1,496
NET EARNINGS ALLOCABLE TO COMMON STOCKHOLDERS.....	\$ 10,712	\$ 18,026	\$ 25,878	\$ 18,492	\$ 19,532
Basic earnings per share.....	\$ 0.52	\$ 0.73	\$ 1.04	\$ 0.74	\$ 0.79
Diluted earnings per share.....	\$ 0.52	\$ 0.72	\$ 1.03	\$ 0.74	\$ 0.78

The accompanying notes are an integral part of these statements.

RENTERS CHOICE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	UNAMORTIZED VALUE OF STOCK AWARD	TREASURY STOCK	TOTAL
	SHARES	AMOUNT					
(IN THOUSANDS OF DOLLARS)							
Balance at January 1, 1995.....	4,300...	\$ 43	\$ 116	\$ 9,126	\$ --	\$ --	\$ 9,285
Net earnings.....	--	--	--	10,712	--	--	10,712
Dividends paid.....	--	--	--	(1,493)	--	--	(1,493)
Contribution of undistributed S corporation earnings.....	--	--	9,126	(9,126)	--	--	--
Initial public offering of common stock.....	2,587	26	23,370	--	--	--	23,396
Issuance of common stock under stock option plan.....	1	--	10	--	--	--	10
Three-for-two common stock split effected in the form of a dividend.....	3,444	34	(34)	--	--	--	--
Two-for-one common stock split effected in the form of a dividend.....	10,333	103	(103)	--	--	--	--
Stock award.....	63	1	960	--	(961)	--	--
Amortization of stock award.....	--	--	--	--	63	--	63
Public offering of common stock.....	3,650	37	54,474	--	--	--	54,511
Balance at December 31, 1995.....	24,378	244	87,919	9,219	(898)	--	96,484
Net earnings.....	--	--	--	18,026	--	--	18,026
Amortization of stock award.....	--	--	--	--	322	--	322
Termination of stock award.....	(37)	--	(576)	--	576	--	--
Exercise of stock options.....	107	1	695	--	--	--	696
Tax benefits related to exercise of stock options.....	--	--	460	--	--	--	460
Acquisition of ColorTyme, Inc.....	343	3	9,512	--	--	--	9,515
Balance at December 31, 1996.....	24,791	248	98,010	27,245	--	--	125,503
Net earnings.....	--	--	--	25,878	--	--	25,878
Exercise of stock options.....	114	1	950	--	--	--	951
Tax benefits related to exercise of stock options.....	--	--	421	--	--	--	421
Balance at December 31, 1997.....	24,905	249	99,381	53,123	--	--	152,753
Net earnings (Unaudited).....	--	--	--	21,028	--	--	21,028
Preferred dividends (Unaudited).....	--	--	--	(1,496)	--	--	(1,496)
Purchase of treasury stock (Unaudited).....	--	--	--	--	--	(25,000)	(25,000)
Exercise of stock options (Unaudited).....	148	2	1,592	--	--	--	1,594
Balance at September 30, 1998 (Unaudited).....	25,053	\$251	\$100,973	\$72,655	\$ --	\$(25,000)	\$148,879
	=====	=====	=====	=====	=====	=====	=====

The accompanying notes are an integral part of these statements.

RENTERS CHOICE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1997	1997	1998
	(UNAUDITED)				
	(IN THOUSANDS OF DOLLARS)				
Cash flows from operating activities					
Net earnings.....	\$ 10,712	\$ 18,026	\$ 25,878	\$ 18,492	\$ 19,532
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities					
Depreciation of rental merchandise.....	29,640	42,978	57,223	42,271	91,382
Depreciation of property assets.....	2,130	3,680	5,601	3,985	10,539
Amortization of intangibles.....	3,109	4,891	5,412	4,017	7,767
Nonrecurring charges -- financing costs.....	--	--	--	--	5,017
Nonrecurring charges -- assets related to name change.....	--	--	--	--	2,451
Amortization of financing fees.....	--	--	--	--	546
Deferred income taxes.....	1,406	4,961	(341)	--	1,826
Other.....	(91)	24	--	(5)	--
Changes in operating assets and liabilities, net of effects of acquisitions					
Rental merchandise.....	(39,220)	(64,927)	(64,346)	(48,262)	(98,839)
Accounts receivable -- trade.....	--	(602)	182	495	464
Prepaid expenses and other assets.....	(2,636)	524	1,252	544	(19,036)
Accounts payable -- trade.....	(28)	10,745	(5,112)	(5,539)	20,812
Accrued liabilities.....	183	(939)	3,033	5,643	(74,320)
Net cash provided by (used in) operating activities.....	5,205	19,361	28,782	21,641	(31,859)
Cash flows from investing activities					
Purchase of property assets.....	(3,473)	(8,187)	(10,446)	(7,636)	(9,732)
Proceeds from sale of property assets.....	414	303	376	219	1,029
Acquisitions of businesses, net of cash acquired of \$56,028 in 1998.....	(21,680)	(28,367)	(30,491)	(29,274)	(946,117)
Net cash used in investing activities.....	(24,739)	(36,251)	(40,561)	(36,691)	(954,820)
Cash flows from financing activities					
Purchase of treasury stock.....	--	--	--	--	(25,000)
Financing fees paid.....	--	--	--	--	(29,035)
Proceeds from issuance of preferred stock.....	--	--	--	--	259,476
Proceeds from public stock offerings.....	77,907	--	--	--	--
Exercise of stock options.....	10	696	951	752	1,594
Distributions to stockholders.....	(1,493)	--	--	--	--
Proceeds from debt.....	33,083	37,733	80,656	71,290	1,250,863
Repayments of debt.....	(49,843)	(72,278)	(71,004)	(56,631)	(385,480)
Repayments of note payable to stockholder.....	(6,250)	--	--	--	--
Sale of notes receivable.....	--	21,338	--	--	--
Net cash provided by (used in) financing activities.....	53,414	(12,511)	10,603	15,411	1,072,418
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	33,880	(29,401)	(1,176)	361	85,739
Cash and cash equivalents at beginning of year.....	1,441	35,321	5,920	5,920	4,744
Cash and cash equivalents at end of year....	\$ 35,321	\$ 5,920	\$ 4,744	\$ 6,281	\$ 90,483

The accompanying notes are an integral part of these statements.

RENTERS CHOICE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS -- CONTINUED

YEARS ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
1995	1996	1997	1997	1998

(UNAUDITED)  
(IN THOUSANDS OF DOLLARS)

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the year for:

Interest.....	\$1,711	\$ 929	\$ 1,962	\$ 1,417	\$11,102
Income taxes.....	\$7,764	\$8,426	\$13,983	\$10,316	\$10,297

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES

In conjunction with the businesses acquired, liabilities were assumed as follows:

YEARS ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
1995	1996	1997	1997	1998

(UNAUDITED)  
(IN THOUSANDS OF DOLLARS)

Fair value of assets					
acquired.....	\$ 68,285	\$ 57,223	\$ 30,491	\$ 29,274	\$ 1,348,831
Stock and options issued.....	--	(9,515)	--	--	--
Cash paid.....	(21,680)	(28,367)	(30,491)	(29,274)	(1,002,145)
Liabilities					
assumed.....	\$ 46,605	\$ 19,341	\$ --	\$ --	\$ 346,686
	=====	=====	=====	=====	=====

The accompanying notes are an integral part of these statements.

## RENTERS CHOICE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE A -- SUMMARY OF ACCOUNTING POLICIES AND NATURE OF OPERATIONS

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

## Principles of Consolidation and Nature of Operations

The accompanying financial statements include the accounts of Renters Choice, Inc. (Renters Choice) and its franchise subsidiaries ColorTyme, Inc. (ColorTyme) (collectively, the Company). All significant intercompany accounts and transactions have been eliminated. Renters Choice leases household durable goods to customers on a rent-to-own basis. At December 31, 1997, the Company operated 504 stores which were located throughout the United States and the Commonwealth of Puerto Rico (sixteen stores).

ColorTyme is a nationwide franchisor of television, stereo and furniture rental centers. ColorTyme's primary source of revenues is the sale of rental equipment to its franchisees, who, in turn, offer the equipment to the general public for rent or purchase under a rent-to-own program. The balance of ColorTyme's revenues are generated primarily from royalties based on the franchisee's monthly gross revenues. At December 31, 1997, there were approximately 262 franchised rental centers operating in 37 states.

## Segment Disclosures

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). SFAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Company adopted SFAS 131 in 1998. The Company's only segments which require separate disclosure under the reporting guidelines of SFAS 131 are its rent-to-own and franchise operations.

## Rental Merchandise

Rental merchandise is carried at cost, net of accumulated depreciation. Depreciation is provided using the income forecasting method which is intended to match as closely as practicable the recognition of depreciation expense with the consumption of the rental merchandise, and assumes no salvage value. The consumption of rental merchandise occurs during periods of rental and directly coincides with the receipt of rental revenue over the rental-purchase agreement period, generally 18 to 24 months. Under the income forecasting method, merchandise held for rent is not depreciated, and merchandise on rent is depreciated in the proportion of rents received to total rents provided in the rental contract, which is an activity based method similar to the units of production method.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE A -- SUMMARY OF ACCOUNTING POLICIES AND NATURE OF OPERATIONS -- (CONTINUED)

Rental merchandise which is damaged and inoperable, or not returned by the customer after becoming delinquent on payments, is written-off when such impairment is incurred.

#### Cash Equivalents

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

#### Rental Revenue and Fees

Merchandise is rented to customers pursuant to rental-purchase agreements which provide for weekly or monthly rental terms with nonrefundable rental payments. Generally, the customer has the right to acquire title either through a purchase option or through payment of all required rentals. Rental revenue and fees are recognized over the rental term. No revenue is accrued because the customer can cancel the rental contract at any time and the Company cannot enforce collection for nonpayment of rents. A provision is made for estimated losses of rental merchandise damaged or not returned by customers.

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

#### Property Assets and Related Depreciation

Furniture, equipment and vehicles are stated at cost. Depreciation is provided over the estimated useful lives of the respective assets (generally five years) by the straight-line method. Leasehold improvements are amortized over the term of the applicable leases by the straight-line method.

#### Intangible Assets and Amortization

Intangible assets are stated at cost less accumulated amortization calculated by the straight-line method.

#### Accounting for Impairment of Long-Lived Assets

The Company evaluates all long-lived assets, including all intangible assets and rental merchandise, for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Impairment is recognized when the carrying amounts of such assets cannot be recovered by the undiscounted net cash flows they will generate. Impairment is measured as the amount by which the carrying value of the asset exceeds the fair value. Fair value is based on management's knowledge of current market conditions or the present value of estimated expected future cash flows.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE A -- SUMMARY OF ACCOUNTING POLICIES AND NATURE OF OPERATIONS -- (CONTINUED)

## Income Taxes

Effective January 1, 1995, the Company terminated its S corporation status and became a C corporation and, therefore, is subject to Federal income taxes. The Company provides deferred taxes for temporary differences between the tax and financial reporting bases of assets and liabilities at the rate expected to be in effect when taxes become payable.

## Earnings Per Share and Stock Splits

Effective for the fourth quarter of 1997, the Company adopted Statement of Financial Accounting Standard No. 128, "Earnings Per Share" (SFAS 128), which requires the computation of basic and diluted earnings per share. The provisions of SFAS 128 have been applied retroactively to all periods presented herein. Basic earnings per share are based upon the weighted average number of common shares outstanding during each period presented. Diluted earnings per share are based upon the weighted average number of common shares outstanding during the period, plus the assumed exercise of stock options at the beginning of the year.

In June 1995, the Company effected a 3-for-2 split of its common stock through the distribution of one-half additional share of common stock as a dividend with respect to each outstanding share of common stock.

On September 11, 1995, the Board of Directors approved a 2-for-1 stock split, to be effected as a 100% stock dividend for shareholders of record as of September 29, 1995.

All share and per share data has been retroactively restated to reflect these transactions.

## Advertising Costs

Costs incurred for producing and communicating advertising are expensed when incurred. Advertising expense was \$6.4 million, \$10.6 million and \$13.7 million in 1995, 1996 and 1997, respectively; and \$10.0 million (unaudited) and \$13.0 million (unaudited) for the nine months ended September 30, 1997 and 1998, respectively.

## Stock-Based Compensation

Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE A -- SUMMARY OF ACCOUNTING POLICIES AND NATURE OF OPERATIONS -- (CONTINUED)  
price of the Company's stock at the date of the grant over the amount an employee must pay to acquire that stock.

## Use of Estimates

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

## Interim Financial Statements

In the opinion of management, the unaudited interim financial statements as of September 30, 1998 and for the nine months ended September 30, 1997 and 1998 include all adjustments, consisting only of those of a normal recurring nature, necessary to present fairly the Company's financial position as of September 30, 1998 and the results of its operations and cash flows for the nine months periods ended September 30, 1997 and 1998. The results of operations for the nine months ended September 30, 1998 are not necessarily indicative of the results to be expected for the full year.

## Comprehensive Income

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income". This Statement establishes standards for reporting and display of comprehensive income and its components. The only component of comprehensive income for the three years in the period ended December 31, 1997 and the nine month periods ended September 30, 1997 and 1998, was net earnings as reported in the Consolidated Statements of Earnings.

## Reclassifications

Certain reclassifications have been made to conform to the 1997 presentation.

## NOTE B -- ACQUISITIONS

## Unaudited

On May 28, 1998, the Company completed its acquisition of the assets of 176 Central Rents, Inc. stores for approximately \$100 million.

On August 5, 1998, the Company acquired all of the outstanding common stock of THORN Americas, Inc. ("Thorn") (1,404 company-owned stores) for approximately \$900 million in cash. The acquisition was financed via \$720 million in variable rate senior

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE B -- ACQUISITIONS -- (CONTINUED)

debt maturing in 6 to 8 1/2 years, \$175 million of 11% senior subordinated debt maturing in 11 years, and \$260 million of redeemable, convertible preferred stock. As a result of the transaction, the Company recorded goodwill of approximately \$565 million, to be amortized over its estimated useful life of 30 years. The purchase agreement provided for a purchase price adjustment based on the change in closing adjusted net worth at the acquisition date, as defined in the agreement. The adjustment is not expected to be material.

In conjunction with the acquisition of Thorn, the Company adopted and communicated plans to terminate substantially all of the existing Thorn home office employees (approximately 550 employees), and to discontinue using Thorn's existing leased distribution facilities in favor of drop shipments of rental merchandise directly to stores. As a result of these plans, at acquisition the Company recorded liabilities for employee termination costs, primarily related to severance agreements, of approximately \$21.1 million and for cancellation penalties, primarily related to the termination of the distribution center leases, of approximately \$9.3 million. As of September 30, 1998, approximately \$9 million and \$.4 million of these employee termination costs and cancellation penalties, respectively, have been paid and charged against the liability. As of November 30, 1998, approximately \$17 million and \$.6 million of these employee termination costs and cancellation penalties, respectively, have been paid and charged against the liability. The Company anticipates that final payments as a result of these actions will be made in early 1999.

Prior to the closing of the Thorn acquisition, the Company determined that it would not continue Thorn's retail automotive business. The retail automobile business was sold on August 25, 1998 for \$4 million, which was the value assigned to the retail automotive business net assets at acquisition. The retail automotive business operating losses of approximately \$665 from the acquisition date through disposal on August 25, 1998 have been excluded from the Company's net income and included as an adjustment to goodwill.

At acquisition, the Company recorded a \$135 million accrual for estimated probable losses on Thorn litigation, including \$34.5 million related Fogie v. Thorn Americas, Inc. and Willis v. Thorn Americas, Inc. which was indemnified by the seller and offset by a corresponding receivable. The accruals relate principally to the following cases:

- - Robinson v. Thorn Americas, Inc. -- Class action filed in April 1994 in New Jersey alleging violations of the New Jersey Retail Installment Sales Act and the New Jersey Consumer Fraud Act, usury, unlawful contractual penalty and conversion by Thorn's New Jersey rent-to-own contracts (approximately 23 stores). This matter has been subsequently settled in principle for approximately \$48.5 million, subject to preliminary and final approval of the court. In addition, Renters Choice agreed to a settlement in principle of its other New Jersey litigation which was ongoing prior to the acquisition. (See Note J).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE B -- ACQUISITIONS -- (CONTINUED)

- - Burney v. Thorn Americas, Inc. -- Class action filed in February 1997 in Wisconsin alleging Thorn's rent-to-own contracts violated the Wisconsin Consumer Act and federal RICO and truth-in-lending statutes. Thorn operated approximately 23 stores in Wisconsin. This matter has been subsequently settled for \$16.25 million and has received preliminary court approval.
- - Allen v. Thorn Americas, Inc. -- Putative nationwide class action suit filed in August 1997 alleging that Thorn discriminated against African-Americans in its hiring, compensation, promotional and termination policies. This matter has been subsequently settled for approximately \$6.75 million.
- - Fogie v. Thorn Americas, Inc. -- Class action filed in December 1991 in Minnesota alleging Thorn's rent-to-own contracts violated Minnesota's Consumer Credit Sales Act and the Minnesota General Usury Statute. In April 1998 the court entered a final judgement against Thorn for approximately \$30 million. Under certain provisions of the judgement, Thorn may receive certain credits against the judgement. Thorn has filed a notice of appeal from the damages finding only and is vigorously pursuing its appeal.
- - Willis v. Thorn Americas, Inc. -- Class actions filed beginning in 1994 in Pennsylvania alleging that prior to Pennsylvania's enactment of rent-to-own legislation, Thorn's rent-to-own contracts were actual installment sales contracts in violation of Pennsylvania law. This matter was settled for \$9.35 million and has been subsequently paid.

Differences between the Company's estimates of these preacquisition contingencies and actual or updated estimated amounts determined during the allocation period will be treated as an adjustment to the purchase price and, accordingly, the goodwill recorded on the transaction may be changed.

## Audited

During 1997, the Company acquired the assets of 76 stores in eighteen separate transactions for approximately \$30.5 million in cash.

On May 15, 1996 the Company acquired all the outstanding common stock of ColorTyme for \$14.5 million, including acquisition costs, comprised of cash of \$4.7 million and 343,175 shares of the Company's common stock and 314,000 options for the Company's common stock valued at \$3.0 million.

Immediately following the purchase of ColorTyme by the Company, ColorTyme sold its loan portfolio (with certain recourse provisions) to a third party for approximately \$21.7 million. No gain or loss was recognized on the sale. ColorTyme simultaneously paid off notes payable owed to a finance company of approximately \$13.2 million.

The Company acquired the assets of an additional ninety-four stores in twenty-three transactions during 1996, for approximately \$25.6 million in cash and \$1.8 million in notes.

## RENTERS CHOICE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE B -- ACQUISITIONS -- (CONTINUED)

In April 1995, the Company acquired 72 stores from Crown Leasing Corporation and certain of its affiliates (Crown) for a cash purchase price of approximately \$20.6 million.

In September 1995, the Company completed the acquisition of 135 rent-to-own stores through the purchase of the common stock of Pro Rental, doing business as Magic Rent-to-Own and Kelway Rent-to-Own. The total purchase price was approximately \$38.4 million, which was paid in cash and notes.

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

The following unaudited pro forma information combines the results of operations as if the acquisitions had been consummated as of the beginning of the period in which the acquisition occurred, and as of the beginning of the immediately preceding period, after including the impact of adjustments for amortization of intangibles and interest expense on acquisition borrowings:

	YEARS ENDED DECEMBER 31,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1997	1997	1998
	(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)			
Revenue.....	\$291,555	\$339,809	\$977,513	\$1,027,581
Net earnings allocable to common stockholders.....	\$ 18,833	\$ 25,866	\$ 16,995	\$ 17,547
Basic earnings per common share.....	\$ 0.76	\$ 1.04	\$ .68	\$ .71
Diluted earnings per common share.....	\$ 0.75	\$ 1.03	\$ .68	\$ .70

The pro forma financial information is presented for informational purposes only and is not necessarily indicative of operating results that would have occurred had the acquisition been consummated as of the above dates, nor are they necessarily indicative of future operating results.

## RENTERS CHOICE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE C -- RENTAL MERCHANDISE

	DECEMBER 31,		SEPTEMBER 30,
	1996	1997	1998
			(UNAUDITED)
	(IN THOUSANDS OF DOLLARS)		
On rent			
Cost.....	\$109,663	\$142,408	\$441,467
Less accumulated depreciation.....	38,043	53,401	70,449
	\$ 71,620	\$ 89,007	\$371,018
	=====	=====	=====
Held for rent			
Cost.....	\$ 27,805	\$ 29,975	\$116,975
Less accumulated depreciation.....	4,315	6,223	6,012
	\$ 23,490	\$ 23,752	\$110,963
	=====	=====	=====

## NOTE D -- PROPERTY ASSETS

	DECEMBER 31,		SEPTEMBER 30,
	1996	1997	1998
			(UNAUDITED)
	(IN THOUSANDS OF DOLLARS)		
Furniture and equipment.....	\$ 9,259	\$ 13,115	\$ 21,780
Delivery vehicles.....	2,711	2,608	41,603
Building and leasehold improvements...	8,542	14,499	30,345
Construction in progress.....	236	547	11,482
	20,748	30,769	105,210
Accumulated depreciation.....	(8,032)	(13,069)	(16,209)
	\$12,716	\$ 17,700	\$ 89,001
	=====	=====	=====

## RENTERS CHOICE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE E -- INTANGIBLE ASSETS

AMORTIZATION PERIOD	DECEMBER 31,		SEPTEMBER 30,	
	1996	1997	1998	
			(UNAUDITED)	
	(IN THOUSANDS OF DOLLARS)			
Customer rental agreements.....	18 months	\$ 2,537	\$ 1,773	\$ 1,117
Noncompete agreements.....	2-5 years	2,892	3,652	4,902
Consulting agreement.....	4 years	2,918	--	--
Franchise network.....	10 years	3,000	3,000	3,000
Goodwill.....	20-30 years	43,933	61,228	701,765
		-----	-----	-----
		55,280	69,653	710,784
Less accumulated amortization.....		8,087	8,470	15,518
		-----	-----	-----
		\$47,193	\$61,183	\$695,266
		=====	=====	=====

Customer rental agreements represent the projected cash flows less servicing costs from open customer contracts of acquired stores at acquisition date and are amortized over the average stated term of the customer contract, 18 months. Noncompete agreements and the consulting agreement are amortized over the life of the respective agreements.

## NOTE F -- REVOLVING CREDIT AGREEMENT

On November 27, 1996, the Company entered into a \$90 million three-year revolving credit agreement with a group of banks. Borrowings under the facility bear interest at a rate equal to a designated prime rate (8.50% at December 31, 1997) or 1.10% to 1.65% over LIBOR (5.75% at December 31, 1997) at the Company's option. Borrowings are collateralized by a lien on substantially all of the Company's assets. A commitment fee equal to .30% to .50% of the unused portion of the term loan facility is payable quarterly. The weighted average interest rate under this facility was 6.7% and 7.0% for the years ended December 31, 1996 and 1997, respectively. The credit facility includes certain net worth and fixed charge coverage requirements, as well as covenants which restrict additional indebtedness and the disposition of assets not in the ordinary course of business. At December 31, 1997, the Company has \$64.5 million available under the agreement.



## RENTERS CHOICE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE G -- ACCRUED LIABILITIES

	DECEMBER 31,		SEPTEMBER 30,
	1996	1997	1998
			(UNAUDITED)
	(IN THOUSANDS OF DOLLARS)		
Taxes other than income.....	\$ 2,872	\$ 3,700	\$ 11,018
Income taxes payable.....	--	1,762	5,541
Accrued litigation costs.....	4,114	4,038	129,067
Accrued insurance costs.....	1,859	3,033	18,978
Accrued compensation and other.....	4,079	4,475	86,273
	-----	-----	-----
	\$12,924	\$17,008	\$250,877
	=====	=====	=====

## NOTE H -- OTHER DEBT

	DECEMBER 31,		SEPTEMBER 30,
	1996	1997	1998
			(UNAUDITED)
	(IN THOUSANDS OF DOLLARS)		
Obligation payable under noncompete agreement, due in 24 monthly installments of \$125 commencing April 1, 1996, with interest imputed at 5.32%....	\$1,826	\$ --	\$ --
Obligation payable under consulting agreement, in 96 monthly installments of \$33.3 commencing May 1, 1993, with interest imputed at 5.32%.....	1,545	--	--
Obligations under noncompete agreements, due in 60 monthly installments of \$32.5 commencing September 1, 1995 with interest imputed at 8.75%.....	1,187	892	653
Other.....	--	--	379
	-----	-----	-----
	\$4,558	\$892	\$1,032
	=====	=====	=====

## RENTERS CHOICE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE H -- OTHER DEBT -- (CONTINUED)

The following are scheduled maturities of debt at December 31, 1997

YEAR ENDING  
DECEMBER 31,  
-----

1998.....	\$289
1999.....	351
2000.....	252
	-----
	\$892
	=====

## NOTE I -- INCOME TAXES

The components of the income tax provision are as follows:

	YEAR ENDED DECEMBER 31,		
	1995	1996	1997
	-----		
	(IN THOUSANDS OF DOLLARS)		
Current			
Federal.....	\$3,837	\$ 5,262	\$15,028
State.....	1,227	1,297	1,911
Foreign.....	1,314	1,556	1,572
	-----	-----	-----
Total current.....	6,378	8,115	18,511
	-----	-----	-----
Deferred			
Federal.....	1,238	3,866	(351)
State.....	168	1,095	10
	-----	-----	-----
Total deferred.....	1,406	4,961	(341)
	-----	-----	-----
Total.....	\$7,784	\$13,076	\$18,170
	=====	=====	=====

## RENTERS CHOICE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE I -- INCOME TAXES -- (CONTINUED)

The income tax provision reconciled to the tax computed at the statutory Federal rate is:

	YEAR ENDED DECEMBER 31,		
	1995	1996	1997
Tax at statutory rate.....	34.0%	34.0%	35.0%
State income taxes, net of federal benefit.....	4.9	5.1	4.6
Effect of foreign operations, net of foreign tax credits.....	1.0	0.5	0.4
Goodwill amortization.....	0.7	1.8	1.1
Other, net.....	1.5	0.6	0.2
Total.....	42.1%	42.0%	41.3%

Deferred tax assets and liabilities consist of the following:

	DECEMBER 31,	
	1996	1997
Deferred tax assets		
Net operating loss carryforwards		
Federal.....	\$ 4,595	\$ 4,202
State.....	3,103	2,614
Accrued expenses.....	1,957	4,267
Intangible assets.....	835	1,079
Property assets.....	166	783
Alternative minimum tax carryforward.....	463	463
Other.....	676	124
	11,795	13,532
Less valuation allowance.....	3,418	2,930
	8,377	10,602
Deferred tax liability		
Rental merchandise.....	2,239	4,123
Net deferred tax asset.....	\$ 6,138	\$ 6,479

The Company has Federal net operating loss carryforwards of approximately \$10.8 million at December 31, 1997 which were acquired in connection with purchased companies. The use of Federal carryforwards which expire between 2005 and 2010 are limited to approximately \$3.5 million per year. Because of uncertainties with respect to allocation of

## RENTERS CHOICE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE I -- INCOME TAXES -- (CONTINUED)

future taxable income to the various states, a valuation allowance has been provided against these carryforwards. If utilized, the tax benefit will reduce goodwill.

## NOTE J -- COMMITMENTS AND CONTINGENCIES

The Company leases its office and store facilities and certain delivery vehicles. Rental expense was \$9.4 million, \$15.7 million and \$22.0 million for 1995, 1996 and 1997, respectively; and \$13.1 million (unaudited) and \$17.6 million (unaudited) for the nine months ended September 30, 1997 and 1998, respectively. Future minimum rental payments under operating leases with remaining noncancellable lease terms in excess of one year at December 31, 1997 are as follows:

YEAR ENDING DECEMBER 31, -----	(IN THOUSANDS OF DOLLARS)
1998.....	\$15,026
1999.....	12,592
2000.....	9,699
2001.....	6,797
2002.....	2,833
Thereafter.....	1,235
	-----
	\$48,182
	=====

The Company has agreed to indemnify its original stockholders against any additional income tax liabilities incurred by them attributable to the Company's operations during taxable periods in which the Company was an S Corporation.

The Company is one of the defendants in a class action lawsuit which alleges that certain rent-to-own contracts entered into between Crown and the plaintiffs included fees and expenses that violated the New Jersey Consumer Fraud Act and the New Jersey Retail Installment Sales Act. The plaintiffs have obtained summary judgment against Crown, reserving damages for trial. Crown and its controlling shareholders have agreed to indemnify the Company against any losses it may incur relating to the litigation under the terms of the Asset Purchase Agreement between Crown and the Company. Although the Company believes it has taken appropriate steps to defend itself, the ultimate outcome of this lawsuit cannot presently be determined.

At December 31, 1997, the Company was a defendant in another class action lawsuit in New Jersey alleging violations of the New Jersey Consumer Fraud Act, Retail Installment Sales Act and usury laws, among other things. The litigation sought treble the amount of damages, if any, incurred by the plaintiff class, punitive damages, interest, attorneys fees and certain injunctive relief. The Company removed the case to federal court on January 21, 1998, and was then advised by the plaintiffs' attorney that the plaintiff no

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE J -- COMMITMENTS AND CONTINGENCIES -- (CONTINUED)

longer wished to serve as class representative. Papers were filed seeking in January 1998 seeking court approval for the withdrawal of the complaint. Management believes that it is probable that plaintiffs' attorney will file a similar complaint on behalf of a new class representative. The ultimate outcome of this lawsuit cannot presently be determined.

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

## NOTE K -- STOCK BASED COMPENSATION

In November 1994, the Company established a long-term incentive plan (the Plan) for the benefit of certain key employees and directors. Under the plan, up to 2,000,000 shares of the Company's shares are reserved for issuance under stock options, stock appreciation rights or restricted stock grants. Options granted to employees under the plan become exercisable over a period of one to five years from the date of grant and may be exercised up to a maximum of 10 years from date of grant. Options granted to directors are exercisable immediately. In 1995, the Company granted a stock award to an employee for 62,500 shares of common stock subject to forfeiture on termination of employment in certain circumstances. At the date of grant, the fair value of such shares was \$960,938. Compensation charged to earnings was \$63,000 and \$320,000 in 1995 and 1996, respectively. Upon termination of employment in 1996, 37,500 shares were forfeited in a negotiated settlement with the Company. There have been no grants of stock appreciation rights and all options had been granted with fixed prices. At December 31, 1997, there were 443,125 shares reserved for issuance under the Plan.

The Company has adopted only the disclosure provisions of SFAS 123 for employee stock options and continues to apply APB 25 for stock options granted under the Plan. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. Compensation costs for all other stock-based compensation is accounted for under SFAS 123. If the Company had elected to recognize compensation expense based upon the fair value at the grant date for options under the Plan consistent with the methodology prescribed by SFAS 123, the Company's 1997, 1996 and 1995 net earnings and earnings per share would be reduced to the pro forma amounts indicated as follows:

## RENTERS CHOICE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE K -- STOCK BASED COMPENSATION -- (CONTINUED)

	1995	1996	1997
	-----		
	(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)		
Net earnings			
As reported.....	\$10,712	\$18,026	\$25,878
Pro forma.....	\$10,494	\$16,469	\$23,967
Basic earnings per common share			
As reported.....	\$ 0.52	\$ 0.73	\$ 1.04
Pro forma.....	\$ 0.51	\$ 0.67	\$ 0.96
Diluted earnings per common share			
As reported.....	\$ 0.52	\$ 0.72	\$ 1.03
Pro forma.....	\$ 0.51	\$ 0.66	\$ 0.95

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 50 percent; risk-free interest rates ranging from 5.75 to 6.92 percent; no dividend yield; and expected lives of seven years.

## RENTERS CHOICE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE K -- STOCK BASED COMPENSATION -- (CONTINUED)

Additional information with respect to options outstanding under the Plan at December 31, 1997, and changes for each of the three years in the period then ended was as follows:

	1995		1996		1997	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year.....	--	\$ --	906,000	\$ 7.10	1,142,050	\$15.74
Granted.....	1,204,500	8.75	695,000	22.22	859,000	16.54
Exercised.....	(3,000)	3.34	(109,700)	7.45	(113,925)	8.39
Forfeited.....	(295,500)	8.00	(349,250)	13.81	(562,875)	17.13
	-----		-----		-----	
Outstanding at end of year.....	906,000	\$9.02	1,142,050	\$15.74	1,324,250	\$16.39
	=====		=====		=====	
Options exercisable at end of year.....	24,000	\$3.34	127,800	\$ 9.64	282,375	\$14.53
Weighted average fair value per share of options granted during 1995, 1996 and 1997, all of which were granted at market.....		\$5.25		\$13.35		\$ 9.93

Information about stock options outstanding at December 31, 1997 is summarized as follows:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING		
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE
\$3.34 to \$6.67.....	293,625	7.35 years	\$ 6.47
\$6.68 to \$18.50.....	523,125	8.76 years	\$14.70
\$18.51 to \$26.75.....	507,500	9.05 years	\$23.88
	-----		
	1,324,250		
	=====		





## RENTERS CHOICE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE M -- EARNINGS PER SHARE -- (CONTINUED)

	YEAR ENDED DECEMBER 31, 1997		
	NET EARNINGS	SHARES	PER SHARE AMOUNT
	-----	-----	-----
Basic earnings per common share.....	\$25,878	24,844	\$1.04
Effect of dilutive stock options.....	--	350	
	-----	-----	-----
Diluted earnings per common share.....	\$25,878	25,194	\$1.03
	=====	=====	

	NINE MONTHS ENDED SEPTEMBER 30, 1997		
	(UNAUDITED)		
	NET EARNINGS	SHARES	PER SHARE
	-----	-----	-----
Basic earnings per common share.....	\$18,492	24,825	\$0.74
Effect of dilutive stock options.....	--	387	
	-----	-----	-----
Diluted earnings per share.....	\$18,492	25,212	\$0.74
	=====	=====	

	NINE MONTHS ENDED SEPTEMBER 30, 1998		
	(UNAUDITED)		
	EARNINGS	SHARES	PER SHARE
	-----	-----	-----
Basic earnings per share:			
Net earnings.....	\$21,028		
Less: Preferred dividends.....	(1,496)		
	-----		
Net earnings allocable to common stockholders.....	19,532	24,910	\$0.79
			=====
Diluted earnings per share:			
Add: Preferred dividends.....	1,496		
Add: Effect of dilutive stock options....		232	
Add: Weighted average convertible preferred shares.....		1,892	
	-----	-----	
	\$21,028	27,034	\$0.78
	=====	=====	=====

## RENTERS CHOICE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE N -- UNAUDITED QUARTERLY DATA

Summarized quarterly financial data for 1996 and 1997 is as follows:

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
	-----	-----	-----	-----
	(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)			
Year ended December 31, 1996				
Revenue.....	\$49,002	\$57,756	\$60,025	\$71,182
Operating profit.....	6,344	7,558	7,957	9,183
Net earnings.....	3,617	4,369	4,729	5,311
Basic earnings per share.....	0.15	0.18	0.19	0.21
Diluted earnings per share.....	\$ 0.15	\$ 0.17	\$ 0.19	\$ 0.21

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
	-----	-----	-----	-----
	(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)			
Year ended December 31, 1997				
Revenue.....	\$74,587	\$80,803	\$83,864	\$92,288
Operating profit.....	9,639	11,341	11,766	13,192
Net earnings.....	5,412	6,357	6,724	7,385
Basic earnings per share.....	0.22	0.25	0.27	0.30
Diluted earnings per share.....	\$ 0.22	\$ 0.25	\$ 0.27	\$ 0.29

## NOTE O -- SUBSIDIARY GUARANTORS

Pursuant to the terms of the indenture relating to the 11% Senior Subordinated Notes, dated August 18, 1998, due 2008, the direct and wholly owned subsidiaries of Renters Choice, Inc., consisting of ColorTyme, Inc. (which was acquired in May, 1996), and Thorn Americas, Inc. (which was acquired in August, 1998) (collectively, the Guarantors), have fully, jointly and severally, and unconditionally guaranteed the obligations of Renters Choice, Inc. with respect to these notes. The only direct or indirect subsidiaries of the Company that are not Guarantors are inconsequential subsidiaries. There are no restrictions on the ability of any of the Guarantors to transfer funds to Renters Choice, Inc. in the form of loans, advances or dividends, except as provided by applicable law.

Accordingly, set forth below is certain summarized combined financial information (within the meaning of Rule 1-02(bb) of Regulation S-X) for the Guarantors, as of and for the year ended December 31, 1996 and 1997, and as of and for the nine months ended September 30, 1997 and 1998. The summarized combined financial information includes ColorTyme, Inc. and Thorn Americas, Inc. from the dates they were acquired by the Company and is presented using the push-down basis of accounting in accordance with SAB Topic 5J. Separate financial statements and other disclosures concerning the Guarantors have not been included because management believes that they are not material to investors.

## RENTERS CHOICE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## NOTE O -- SUBSIDIARY GUARANTORS -- (CONTINUED)

	YEARS ENDED DECEMBER 31,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1997	1997	1998
	(UNAUDITED)			
	(IN THOUSANDS OF DOLLARS)			
Rental merchandise, net.....	\$ --	\$ --	\$ --	\$ 339,741
Intangible assets, net.....	4,513	3,485	4,208	568,188
Total assets.....	12,149	11,866	10,002	1,161,026
Total debt.....	--	--	--	802,009
Total liabilities.....	6,554	2,747	7,141	1,078,864
Total revenues.....	28,322	42,036	26,985	179,537
Direct store expenses.....	--	--	--	123,155
Franchise operating expense.....	28,062	36,301	22,929	27,317
Net earnings.....	1,477	2,018	1,413	3,065

## NOTE P -- SUBSEQUENT EVENT (UNAUDITED)

On December 14, 1998, the Company announced it reached a settlement of its two New Jersey class action lawsuits which existed prior to the acquisition of Thorn. The settlement will result in a fourth quarter charge to earnings in the range of \$10 million to \$11.5 million.

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
THORN Americas, Inc.

We have audited the accompanying consolidated balance sheets of THORN Americas, Inc. and subsidiaries as of March 31, 1997 and 1998, and the related consolidated statements of operations, stockholder's equity and cash flows for each of the three years in the period ended March 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of THORN Americas, Inc. and subsidiaries at March 31, 1997 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 1998, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

April 24, 1998  
except for Note 14, as to which  
the date is June 25, 1998  
Wichita, Kansas

## THORN AMERICAS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	MARCH 31		JUNE 30
	1997	1998	1998
			(UNAUDITED)
			(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)
Cash.....	\$ 26,077	\$ 23,755	\$ 27,486
Accounts receivable -- other.....	10,339	26,937	28,822
Accounts receivable -- affiliated companies, net.....	62,101	15,024	702
Prepaid expenses.....	9,169	8,114	8,555
Deferred income taxes.....	21,209	21,113	21,113
Merchandise and auto inventory.....	38,231	39,443	43,068
Rental merchandise, at cost.....	509,183	521,482	539,539
Less accumulated depreciation.....	233,171	228,517	235,857
Net rental merchandise.....	276,012	292,965	303,682
Property and equipment, at cost			
Land and building.....	19,810	22,855	22,971
Furniture and equipment.....	84,083	95,594	98,189
Transportation and equipment.....	86,140	87,494	87,851
Leasehold improvements.....	59,206	63,593	73,616
	249,239	269,536	282,627
Less accumulated depreciation and amortization.....	130,736	146,016	152,475
Net property and equipment.....	118,503	123,520	130,152
Goodwill, less accumulated amortization.....	499,471	479,636	479,517
Other assets, less accumulated amortization.....	47,168	48,602	49,199
	\$1,108,280	\$1,079,109	\$1,092,296
	=====	=====	=====

See accompanying notes.

## THORN AMERICAS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS, CONTINUED

	MARCH 31		JUNE 30
	1997	1998	1998
			(UNAUDITED)
Liabilities and Stockholder's Equity			
Accounts payable.....	\$ 62,222	\$ 31,717	\$ 41,334
Accrued expenses:			
Salaries, wages and fringe benefits.....	31,523	32,492	31,305
Other.....	18,948	9,047	9,495
Other liabilities.....	40,776	52,986	63,633
Accrued incentives.....	1,550	2,161	1,853
Long term loans from affiliates.....	714,235	714,223	714,663
	-----	-----	-----
Total liabilities.....	869,254	842,626	862,283
	-----	-----	-----
Stockholder's equity:			
Common stock of \$1 par value; 1,000			
shares authorized, issued and			
outstanding.....	1	1	1
Additional paid-in capital.....	334,681	334,681	334,681
Retained deficit.....	(95,656)	(98,199)	(104,669)
	-----	-----	-----
Total stockholder's equity.....	239,026	236,483	230,013
	-----	-----	-----
	\$1,108,280	\$1,079,109	\$1,092,296
	=====	=====	=====

See accompanying notes.

THORN AMERICAS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED MARCH 31			THREE MONTHS ENDED JUNE 30	
	1996	1997	1998	1997	1998
	(UNAUDITED)				
(DOLLARS IN THOUSANDS)					
Revenues:					
Rental revenues and fees.....	\$819,452	\$850,773	\$819,949	\$208,444	\$214,514
Sale of merchandise and autos.....	64,628	60,249	62,712	12,611	15,141
Franchise income.....	5,364	2,366	2,266	582	560
Other income.....	8,483	13,483	19,077	4,004	5,206
Total revenues...	897,927	926,871	904,004	225,641	235,421
Costs and operating expenses:					
Cost of sales.....	43,345	39,793	45,574	8,524	12,503
Depreciation and amortization:					
Rental merchandise....	257,383	260,433	244,572	62,852	62,886
Goodwill.....	19,097	23,164	24,044	6,014	5,884
Other.....	33,139	35,921	32,825	8,584	8,648
Salaries, wages and fringe benefits.....	255,768	272,242	279,796	68,488	72,960
Advertising.....	33,895	30,284	30,320	8,059	8,188
Property costs.....	52,393	59,244	61,643	15,054	14,886
Other operating expenses.....	116,289	143,487	117,597	27,541	45,829
Restructuring charges....	12,600	--	12,292	--	--
Total costs and operating expenses.....	823,909	864,568	848,663	205,116	231,784
Operating income.....	74,018	62,303	55,341	20,525	3,637
Other (income) expense:					
Interest:					
Related parties, net.....	79,692	53,078	45,961	10,888	11,271
Other interest, net...	515	(427)	223	(63)	(80)
Other.....	101	(254)	(88)	(81)	72
Total other (income) expense.....	80,308	52,397	46,096	10,744	11,263
Income (loss) before income taxes.....	(6,290)	9,906	9,245	9,781	(7,626)
Income taxes (benefit)...	6,771	13,880	7,760	5,950	(1,156)
Net income (loss).....	\$(13,061)	\$ (3,974)	\$ 1,485	\$ 3,831	\$ (6,470)
	=====	=====	=====	=====	=====

See accompanying notes.

## THORN AMERICAS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY  
FOR THE YEARS ENDED MARCH 31, 1996, 1997 AND 1998

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED DEFICIT	TOTAL STOCKHOLDER'S EQUITY
	-----	-----	-----	-----
	(DOLLARS IN THOUSANDS)			
Balance at March 31, 1995				
As previously reported.....	\$1	\$180,210	\$ (75,636)	\$104,575
Adjustment for reorganization/ demerger.....	--	--	(2,985)	(2,985)
Adjusted balance.....	1	180,210	(78,621)	101,590
Net loss.....	--	--	(13,061)	(13,061)
Balance at March 31, 1996.....	1	180,210	(91,682)	88,529
Net loss.....	--	--	(3,974)	(3,974)
Capital contributed by Parent.....	--	154,471	--	154,471
Balance at March 31, 1997.....	1	334,681	(95,656)	239,026
Net income.....	--	--	1,485	1,485
Advance to unconsolidated New Zealand division....	--	--	(4,028)	(4,028)
Balance at March 31, 1998.....	1	334,681	(98,199)	236,483
Net income (unaudited).....	--	--	(6,470)	(6,470)
Balance at June 30, 1998 (unaudited).....	\$1	\$334,681	\$(104,669)	\$230,013
	==	=====	=====	=====

See accompanying notes to consolidated financial statements.



THORN AMERICAS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED MARCH 31			THREE MONTHS ENDED JUNE 30	
	1996	1997	1998	1997	1998
	-----			-----	
	(DOLLARS IN THOUSANDS)			(UNAUDITED)	
Cash flows from operating activities:					
Net income (loss).....	\$ (13,061)	\$ (3,974)	\$ 1,485	\$ 3,831	\$ (6,470)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Rental merchandise losses.....	9,463	11,152	10,126	1,054	2,656
Depreciation and amortization.....	309,619	319,518	301,441	77,450	77,418
Interest added to principal balance, loan from affiliates.....	88,891	34,468	--	--	--
Deferred income taxes.....	(5,341)	(10,277)	96	--	--
Restructuring charges.....	7,814	--	6,851	--	--
Changes in operating assets and liabilities net of effects from business combinations:					
Accounts receivable -- other.....	(407)	(3,930)	(16,598)	8,297	(1,885)
Accounts receivable -- affiliated companies.....	21,826	480	(480)	--	--
Prepaid expenses.....	(3,697)	1,604	1,055	316	(441)
Merchandise and auto inventory.....	(6,622)	(9,443)	(1,212)	7,682	(3,625)
Accounts payable.....	12,748	11,112	(30,505)	(22,860)	9,617
Accrued expenses, other liabilities and accrued incentives.....	4,968	32,954	(3,100)	(3,059)	9,600
	-----	-----	-----	-----	-----
Net cash provided by operating activities.....	426,201	383,664	269,159	72,711	86,870
Cash flows from investing activities:					
Proceeds from sale of rental merchandise.....	43,858	50,998	39,474	9,441	8,040
Net funds received from affiliated company.....	17,427	141,672	47,557	914	14,322
Advance to unconsolidated New Zealand division.....	--	--	(4,028)	--	--
Acquisition of rental merchandise.....	(299,704)	(289,483)	(306,792)	(64,506)	(83,320)
Acquisition of property and equipment...	(44,642)	(32,306)	(38,077)	(5,630)	(15,454)
Acquisition of rental companies, net of cash acquired.....	(124,577)	(21,073)	(7,626)	(1,448)	(4,040)
Decrease in undistributed IRB funds.....	2,250	--	--	--	--
Purchase of Minority Interest.....	--	--	--	--	(3,000)
Other.....	(10,330)	(10,658)	(1,977)	(752)	(127)
	-----	-----	-----	-----	-----
Net cash used by investing activities.....	\$(415,718)	\$(160,850)	\$(271,469)	\$(61,981)	\$(83,579)

Continued on following page.

THORN AMERICAS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

	YEARS ENDED MARCH 31,			THREE MONTHS ENDED JUNE 30,	
	1996	1997	1998	1997	1998
(UNAUDITED)					
(DOLLARS IN THOUSANDS)					
Cash flows from financing activities:					
Advances from parent.....	\$ --	\$ --	\$ --	\$ 592	\$ 440
Repayment of bond obligations...	(1,740)	(7,322)	--	--	--
Repayments of loan from parent.....	--	(208,640)	(12)	--	--
Net cash used by financing activities.....	(1,740)	(215,962)	(12)	592	440
Net increase (decrease) in cash...	8,743	6,852	(2,322)	11,322	3,731
Cash at beginning of year.....	10,482	19,225	26,077	26,077	23,755
Cash at end of year.....	\$19,225	\$ 26,077	\$23,755	\$37,399	\$27,486
Supplemental disclosure of cash flow information					
Cash paid during the year for:					
Interest.....	\$ 4,862	\$ 30,431	\$48,709	\$11,476	\$11,502
Income taxes.....	4,295	17,102	23,991	9,265	252

Supplemental schedule of noncash financing activities

During fiscal 1997, as part of the demerger transaction, the Company received a capital contribution of \$154,471 related to a reduction of affiliated indebtedness.

Disclosure of accounting policies

For purposes of the statement of cash flows, the Company considers cash and cash equivalents to include currency on hand, demand deposits and short-term investments with a maturity of three months or less with banks or other financial institutions.

## THORN AMERICAS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

MARCH 31, 1996, 1997 AND 1998

(INFORMATION AS OF JUNE 30, 1998 AND FOR THE THREE-MONTH PERIODS  
ENDED JUNE 30, 1997 AND 1998 IS UNAUDITED)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Organization and Principles of Consolidated Financial Statements

Prior to April 1996, THORN Americas, Inc. (TA) was a wholly-owned subsidiary of THORN EMI North America Holdings, Inc. (TEMINAH) and TEMINAH was an indirectly wholly-owned subsidiary of THORN EMI plc., a United Kingdom limited liability company. Effective August 19, 1996, the demerger and reorganization of the THORN EMI group was completed and the rental, rental-purchase and related businesses of THORN EMI group were transferred to THORN plc. (THORN), a newly formed United Kingdom limited liability company. As a result of this demerger and reorganization, TA became a wholly owned subsidiary of THORN International BV, (hereinafter referred to as the "Parent"). The Parent is an indirectly wholly-owned subsidiary of THORN. The consolidated financial statements include the accounts of THORN Americas, Inc. and its wholly-owned subsidiaries, except for the net assets and operations of its New Zealand division, which had net assets at March 31, 1997 and 1998 of \$7,608 and \$10,242, respectively, hereinafter referred to collectively as the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

THORN Americas, Inc., dba Rent-A-Center, Remco America, Inc. (Remco), U-Can Rent, and THORN Services International (TSI) operate approximately 1,400 rent-to-own stores throughout the United States. Rent-A-Center, Remco and U-Can Rent principally rent consumer electronics, appliances and furniture on a short or long term basis. Ownership of the merchandise may be transferred to the consumer when rented on a long term basis, usually 6 to 30 months. TSI services the rental merchandise and provides warehouse and merchandise distribution services to the Rent-A-Center, Remco and U-Can Rent stores.

During fiscal 1998, the Company began testing a used auto sales business, under the tradename AdvantEDGE Quality Cars. This proposition offers a retail transaction on the sale of used autos with installment financing available through the Company.

Certain reclassifications have been made in the 1996 and 1997 consolidated financial statements to conform with the 1998 format.

## Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
(DOLLARS IN THOUSANDS)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

## Merchandise and Auto Inventory

Merchandise inventory consists primarily of rental merchandise which is temporarily stored in distribution centers awaiting assignment to a store. Rental merchandise inventory is stated at average cost. In fiscal 1998, merchandise and auto inventory also includes inventory associated with the Company's auto business. Auto inventory is stated at actual cost.

## Rental Merchandise, Related Rental Revenues and Depreciation

Rental merchandise is rented to customers pursuant to rental agreements which generally provide for either weekly or monthly rental terms, with rental payments collected in advance. The rental agreements may be terminated at any time by the customers, and if terminated, the rental merchandise is returned to the Company. Rental revenue is recognized over the rental term.

Merchandise rented to customers or available for rent is classified in the consolidated balance sheets as rental merchandise and is being depreciated on a straight-line basis over various periods ranging from 6 to 30 months (a majority of rental merchandise is depreciated over 18 to 24 month periods), and assumes a salvage value on each item of approximately one month of depreciation.

## Depreciation and Amortization

Depreciation of furniture and equipment, transportation equipment and buildings is computed on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the term of the related leases.

## Goodwill

Goodwill represents the excess of cost over the fair value of the net assets of businesses acquired and is amortized on the straight-line method over periods ranging from 2 to 40 years. Accumulated amortization of goodwill was \$149,210 and \$173,254 at March 31, 1997 and 1998, respectively.

## Other Assets

Other assets consist of territory rights, covenants not to compete, deferred software costs, and other tangible and intangible amounts. Other assets, which are amortizable, are amortized using the straight-line method over periods ranging from 3 to 25 years. Accumulated amortization of these assets was \$14,797 and \$17,091 at March 31, 1997 and 1998, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
(DOLLARS IN THOUSANDS)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

## Sale of Merchandise and Autos

Sale of merchandise and autos consists primarily of sales of used rental merchandise, including proceeds from early payoffs of rental purchase contracts, and automobile sales in connection with the Company's auto business which opened in fiscal 1998.

## Accounting for Impairment of Long-Lived Assets

The Company evaluates all long-lived assets, including all intangible and other assets, for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Impairment is recognized when the carrying amounts of such assets cannot be recovered by the undiscounted future net cash flows likely to be generated. Impairment is measured as the amount by which the carrying value of the asset exceeds the fair value. Fair value is based on management's knowledge of current market conditions or the present value of estimated expected future cash flows.

## Advertising Costs

Costs incurred for communicating and producing advertising are expensed the first time the advertising occurs. During fiscal 1996, 1997 and 1998, advertising expense was \$33,895, \$30,284 and \$30,320, respectively.

## Stock-based Compensation

The Company participates in stock option and share rights plans sponsored by THORN that provide for the granting of stock options (Thorn Share Option Plan) to exempt level employees and share rights (Share Appreciation Rights Plan) to certain key executives of the Company. The stock options and share rights, which are associated with THORN stock, are typically issued annually and vest over a three year period, subject to certain performance criteria. Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-based Compensation," encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company applies APB Opinion 25 "Accounting for Stock Issued to Employees" in accounting for stock options.

## Concentration of Credit Risk

The Company's financial instruments that were exposed to concentrations of credit risk consist primarily of cash. The Company places its funds into high credit quality financial institutions and, at times, such funds may be in excess of the Federal Depository insurance limit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
(DOLLARS IN THOUSANDS)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

## Unaudited Interim Financial Data

The interim financial data at June 30, 1998, and for the three-month periods ended June 30, 1997 and 1998, included herein, are unaudited and, in the opinion of management, reflect all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of financial position and the results of operations and cash flows for such interim periods.

## 2. ACQUISITIONS AND MERGERS

The Company maintains an ongoing program to acquire selected rental operations. During fiscal 1998, the Company acquired in purchase transactions eight rental operations for an aggregate \$7,626 net of cash acquired, of which \$4,209 was accounted for as goodwill. During fiscal 1997, the Company acquired in purchase transactions twelve rental operations for an aggregate \$21,073 net of cash acquired, of which \$15,292 was accounted for as goodwill. During fiscal 1996, the Company acquired in purchase transactions seven rental operations for an aggregate \$124,577 net of cash acquired, of which \$85,363 was accounted for as goodwill. The operations of the stores are included in the Company's consolidated financial statements beginning on the date of acquisition. The Company is continuing to consider the acquisition of additional rental operations.

On August 19, 1996 the demerger of the THORN EMI group was completed and the rental, rental-purchase and related businesses of the THORN EMI group were transferred to THORN plc. This resulted in, among other things, the Company acquiring 100 percent of the common stock of Remco Americas, Inc. in exchange for the Company's twelve percent investment interest in the common stock of an affiliated company, Thorn EMI North America, Inc. (TENA). The Company's investment in TENA was accounted for under the cost method of accounting and had a net book carrying value of \$50,000. The affiliates from which this common stock and these net assets were purchased were under the common control of the Company's indirect parent at the time of the transaction and accordingly, the assets and liabilities were recorded at their historical cost in a manner similar to that of a pooling of interest. The accompanying financial statements include the accounts and operations of these affiliates as if they were a part of the Company at the beginning of fiscal 1996.

## 3. LOANS FROM AFFILIATES

Prior to the demerger, the Company had entered into a loan agreement with TEMINAH which required the Company to pay to TEMINAH \$2,129,280 on July 2, 2004. This amount consisted of principal plus interest compounded at ten percent (10%) per year. As a part of the demerger transaction the Company and an affiliated company, Thorn Finance, plc. (TFP), refinanced the loan agreement, requiring the Company to pay TFP \$710,818 together with all accrued and unpaid interest on the unpaid balance on July 2, 2010. In connection with this refinancing the Company paid \$200,000 on the original note. In

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
(DOLLARS IN THOUSANDS)

## 3. LOANS FROM AFFILIATES -- (CONTINUED)

addition, \$50,000 of this note was forgiven by TEMINAH and recorded as a contribution of capital in the accompanying statement of stockholders' equity.

During fiscal 1998, interest accrues at a variable rate equal to 120% of the "Applicable Federal Rate" (AFR), designated as "Compounding Monthly," for debt instruments with a maturity of less than three years (6.3% at March 31, 1998). During fiscal 1997, the interest rate was equal to fifty (50) basis points above the AFR (6.18% at March 31, 1997). The terms of the agreement allow the Company to prepay the note in part or in full, without premium or penalty. The balance on the note payable to TFP, at March 31, 1997 and 1998 was \$714,235 and \$714,223, respectively.

## 4. TRANSACTIONS WITH AFFILIATED COMPANIES

Accounts receivable from affiliated companies includes income taxes payable to Parent of \$480 at March 31, 1997 (see Note 9). These balances are not subject to interest. The Company has short term loans receivable outstanding from TFP totaling \$65,000 and \$15,000 as of March 31, 1997 and 1998, respectively. Other intercompany receivables/ (payables) with affiliated companies totaled \$(2,419) and \$24 as of March 31, 1997 and 1998, respectively. The year-end net receivable balances are not subject to specified settlement terms.

Prior to the demerger transaction, advances to or from affiliated companies were made as working capital was available or needed. The Company received interest at 125% of the monthly applicable federal rate on the deposited funds. After the demerger transaction the Company continues to earn interest on its excess cash invested with THORN at rates commensurate with short term interest rates available in major U.S. banking markets.

TA has been charged a management fee, or related rebate thereof, by Thorn relating primarily to salary and other administrative expenses incurred by Thorn while providing management oversight to TA. During 1996, 1997 and 1998, management fees (rebates) were approximately \$996, \$4,449, and (\$2,900), respectively.

## 5. COMMITMENTS

The Company leases its store and distribution facilities. Management expects, in the normal course of business, that leases which expire will be renewed or replaced by other

## THORN AMERICAS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
(DOLLARS IN THOUSANDS)

## 5. COMMITMENTS -- (CONTINUED)

leases. At March 31, 1998, the approximate future annual minimum rental payments required under these noncancelable operating leases were as follows:

1999.....	\$39,886
2000.....	28,625
2001.....	14,344
2002.....	6,114
2003.....	2,475
Thereafter.....	2,327
	-----
Total minimum payments required.....	\$93,771
	=====

Rent expense under noncancelable operating leases for fiscal 1996, 1997, and 1998 was approximately \$41,197, \$45,973 and \$47,590, respectively.

## 6. INCENTIVE PLANS

The Company has long-term incentive plans for key executives. Payments are contingent upon the Company meeting long-term financial objectives based upon three-year operating cycles. Expense associated with such plans during fiscal 1996, 1997 and 1998 totaled \$440, \$797 and \$1,072, respectively. The expected obligations under these plans at March 31, 1997 and 1998 were \$1,550 and \$2,161, respectively.

## 7. SAVINGS PLANS

The Company has a trustee savings plan for the benefit of eligible employees. The plan provides for the participants to make voluntary contributions to the plan ranging from 1% to 20% of their gross compensation which is matched by the Company at a rate each year as determined by the Company's Board of Directors. The Company may, at its sole discretion, match 100% of the amount contributed by the participant up to 4% of the employee's annual gross compensation.

Effective January 1, 1998, the Company offered a nonqualified saving plan (NSP) for certain designated employees who are within a select group of key management or highly compensated employees. Employees eligible to participate in the NSP may elect to defer up to a maximum of 80% of their salary and up to a maximum of 100% of incentive bonuses. The Company will make a matching deferred contribution of up to 15% of the employee's contribution, not to exceed \$15 per employee per plan year.

During fiscal 1996, 1997, and 1998 the expense related to these plans, net of forfeitures, amounted to \$3,554, \$3,359 and \$3,295, respectively.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
(DOLLARS IN THOUSANDS)

## 8. STOCK-BASED COMPENSATION PLANS

In fiscal 1997, the Company adopted the disclosure-only provisions of SFAS 123. SFAS 123 encourages entities to adopt a fair value-based method of accounting for employee stock compensation plans, but allows companies to continue to account for those plans using the accounting proscribed by APB 25. The Company has elected to account for stock based compensation using APB 25, while making the required pro forma disclosures of net earnings as if the fair value-based method had been applied.

Accordingly, no compensation expense has been recorded for the stock option or share rights plans. Had the compensation cost for stock based compensation plans been determined using the fair value method of accounting consistent with SFAS 123, there would have been no significant effect on the Company's net income. The Black-Scholes option-pricing model was used to determine the fair value on the date of grant for the stock options and share rights. As of March 31, 1998 there were awards for 9,961,904 shares outstanding.

SFAS 123 requires certain disclosures to be made about the pricing model assumptions used, exercisable options, option activity, weighted average price per option and option exercise price range for each income statement period. Since the stock option and share rights activity relates only to THORN's stockholders' equity, this information is not presented for the Company.

## 9. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the provision for income taxes attributable to continuing operations are as follows:

	1996	1997	1998
	-----	-----	-----
Current:			
Federal.....	\$ 8,576	\$ 17,487	\$7,050
State.....	3,536	6,670	614
	-----	-----	-----
Total current.....	12,112	24,157	7,664
	-----	-----	-----
Deferred:			
Federal.....	(4,384)	(7,998)	(532)
State.....	(957)	(2,279)	628
	-----	-----	-----
Total deferred.....	(5,341)	(10,277)	96
	-----	-----	-----
	\$ 6,771	\$ 13,880	\$7,760
	=====	=====	=====

## THORN AMERICAS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
(DOLLARS IN THOUSANDS)

## 9. INCOME TAXES -- (CONTINUED)

Prior to the demerger, the Company filed a consolidated federal tax return with TEMINAH and calculated its tax provision in accordance with TEMINAH's tax allocation policy, which provides for calculations on a stand-alone basis with any tax liability or benefit recorded as a payable to or receivable from TEMINAH. Post-demerger, the Company files a consolidated federal tax return with its U.S. subsidiaries and calculates its tax liability based upon income for the applicable periods. During fiscal 1997 in connection with the demerger, TEMINAH forgave \$8,721 in tax liability owed to them from the Company. This reduction in liability was treated as a capital contribution by TEMINAH and recorded as an increase in paid-in capital by the Company.

The income tax provision differed from the amount computed by applying the U.S. federal income tax rate of 35% for fiscal 1997 and 1998 to income before income taxes as a result of the following:

	1996	1997	1998
	-----	-----	-----
Computed "expected" tax expense.....	\$(2,202)	\$ 3,466	\$ 3,236
Increase (reduction) in income taxes resulting from:			
Amortization of non-deductible goodwill....	5,336	6,149	6,123
State and local income tax, net of federal income tax benefit.....	2,298	4,336	807
Reduction of valuation allowance.....	--	--	(1,400)
Other, net.....	1,339	(71)	(1,006)
	-----	-----	-----
	\$ 6,771	\$13,880	\$ 7,760
	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
(DOLLARS IN THOUSANDS)

## 9. INCOME TAXES -- (CONTINUED)

Significant components of the Company's deferred tax assets and liabilities are as follows:

	1997	1998
	-----	-----
Deferred tax assets:		
Reserves for contingencies and restructuring.....	\$10,836	\$19,704
Reserves for self-insurance and accrued liabilities...	9,997	11,378
Alternative minimum tax credit carryforward.....	--	6,674
Property and equipment.....	5,146	10,377
Other.....	4,324	5,520
	-----	-----
Total deferred tax assets.....	30,303	53,653
Deferred tax liabilities:		
Rental assets.....	\$ 4,875	\$26,811
Other.....	4,219	5,729
	-----	-----
Total deferred tax liabilities.....	9,094	32,540
	-----	-----
Net deferred tax assets.....	\$21,209	\$21,113
	=====	=====

The alternative minimum tax credit carryforward has no expiration date.

## 10. CONTINGENCIES

The Company is a defendant in a number of class or alleged class action cases relating to Rent-A-Center's rental-purchase or rent-to-rent agreements as detailed below. Each claim is being adjudicated in the context of the relevant state law which is different in each state. The first five cases referred to below, which seek to recharacterize the transaction from a lease to a credit sale, were filed prior to 1995. Of the remaining four cases, two, filed in late 1997 and early 1998, seek to challenge compliance with the relevant rental-purchase statutes. The remaining two cases, filed in early 1998, seek to challenge the reinstatement fee and in addition, one of the cases alleges that the Liability Damage Waiver (LDW) charge is excessive.

The Company is a defendant in a class action alleging that Rent-A-Center's rental-purchase agreements are credit sales and do not comply with the requirements of the Minnesota Consumer Protection Statutes and Usury Law. Summary judgment was entered as to liability and was affirmed by the U.S. Eighth Circuit Court of Appeals. The District Court found that the remedy available to the class members would be full recovery of all amounts paid for customers who returned their property and recovery of only the alleged interest for those customers who did not return their property.

Final Judgment as to damages was issued April 15, 1998, in the amount of \$29,898 plus interest, although the court is considering the plaintiffs' request for an additional \$1,630.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
(DOLLARS IN THOUSANDS)

## 10. CONTINGENCIES -- (CONTINUED)

The Company will appeal such award of damages and will be required to post a bond in connection therewith. The Company no longer offers its rental-purchase transaction in this state.

The Company and five of its present or former officers are defendants in a Pennsylvania alleged class action resulting from the consolidation of two existing proposed class actions. A third class action lawsuit in Pennsylvania has been stayed pending the outcome of the consolidated action and is incorporated into the settlement relating to that consolidated action. The consolidated action alleges that Rent-A-Center's rental agreements violate the Pennsylvania Goods and Services Installment Sales Act and the federal Racketeer Influenced and Corrupt Organization Act (RICO). A motion for a nationwide class certification has been denied by the court with the provision that plaintiffs may attempt to amend their complaint. A settlement in the amount of \$9,350 has been reached with the plaintiffs. A final hearing to obtain the Court's approval was held June 17, 1998, and the Court approved the settlement July 8, 1998.

The class action filed in 1994 in Federal Court in Wisconsin was dismissed for lack of jurisdiction on October 20, 1997. The plaintiffs have re-filed the case in a Wisconsin state court. The new complaint alleges that Rent-A-Center's rental purchase agreements should be deemed consumer credit sales under the Wisconsin Consumer Act, violated Wisconsin's Usury law and violated the Wisconsin Deceptive Practices Act. The Court entered an order July 7, 1998 granting the plaintiff's motion for class certification and denying the Company's Motion for partial summary judgment. A pre-trial conference is scheduled August 26, 1998. The Company will defend the new claim vigorously.

The Company is a defendant in a class action alleging that Rent-A-Center's rental-purchase agreements are credit sales and do not comply with the requirements of the New Jersey Retail Installment Sales Act and violate the New Jersey Consumer Fraud Act and Usury law. In January 1997, summary judgment was granted in favor of the plaintiffs in this case as to violation of the Retail Installment Sales Act and the Consumer Fraud Act; the Court denied the plaintiff's motion on the usury count. However, in September 1997, the Court granted the plaintiff's motion for summary judgment on damages for breach of the Retail Installment Sales Act and the Consumer Fraud Act, adopting the plaintiff's formula of 40% of all rental payments, being the time differential interest equivalent, plus reinstatement fees. This amount was trebled pursuant to the Consumer Fraud Act. Judgment has now been entered for an amount of \$100,000 subject to further accounting. Initially, a bond was posted for this amount, and pursuant to further accounting was increased by \$63,000 to cover potential damages through April, 1999. The injunction to prevent Rent-A-Center from continuing to trade has been stayed pending the appeal. The Company is appealing this legal decision to the New Jersey Court of Appeals and intends to pursue all further legal proceedings as appropriate.

The Company is a defendant in a class action alleging that Rent-A-Center violated the Texas Usury Law, the Texas Insurance Law and the Texas Deceptive and Unfair Trade

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
(DOLLARS IN THOUSANDS)

## 10. CONTINGENCIES -- (CONTINUED)

Practices Act. Texas law presently provides that rental purchase agreements are not credit sales. There have been no developments in this case since 1994 and damages are unspecified.

The following information relates to those claims not seeking recharacterization:

The Company is a defendant in an alleged class action in New York. The case has been removed to Federal Court. The complaint alleges that Rent-A-Center engaged in deceptive or unfair acts in contravention of the New York Personal Property Law (the Rent-to-Own Program Law), as well as provisions of the General Business Law relating to consumer protection for deceptive acts and practices and false advertising. The plaintiffs seek both compensatory and punitive damages.

The Company is a defendant in an alleged class action filed in Massachusetts. This claim alleges that Rent-A-Center's transactions and advertising failed to comply with the Massachusetts rental purchase statute and are deceptive under the Massachusetts Consumer Protection Act. The plaintiffs seek both compensatory and punitive damages.

The Company is a defendant in two alleged class actions filed in the State of Alabama which were filed in January and March, 1998. These claims allege that Rent-A-Center's reinstatement fee constitutes an illegal penalty and that charging such fee constitutes breach of contract. A second claim was added to the second class action alleging the LDW charge is excessive. The plaintiffs seek compensatory damages only.

The claims described above, where not concluded, are being vigorously defended. However, management believes it is probable that a loss will be incurred in some of the cases and although a specific amount is difficult to estimate given potential appellate decisions reversing in whole or in part outstanding lower court judgments, the Company estimates that the range of potential losses is \$31,000 to \$37,000 related to the cases where management believes it is probable that losses will be incurred. The Company has accrued \$34,500 in the accompanying financial statements which represents management's best estimate, within the aforementioned range of the losses, of probable losses to be incurred on certain cases. If the courts in these actions were to hold that the Company's rental or rental-purchase transactions constitute credit sales, the Company would seek to adapt its agreements, where this has not already occurred, so that they would not be so treated under relevant state laws. Management believes that a final unfavorable outcome in any one of these actions, except for that in Texas, would not have a material adverse effect on the Company's ongoing business. There can be no assurance, however, that final unfavorable outcomes in any of these actions would not have a material effect on the Company's financial condition or results of operations in the year of final adjudication.

The Company is a defendant in an action filed in the Federal District Court in Missouri alleging a policy of racial discrimination against a nationwide class of African-Americans who applied for employment, are currently employed or were formerly employed. The Company denies the allegations and will vigorously oppose certification of a nationwide

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
(DOLLARS IN THOUSANDS)

## 10. CONTINGENCIES -- (CONTINUED)

class. Attempts to certify a nationwide class in a racial discrimination case filed in the Federal District Court in Kansas were dismissed last year.

The Company's management is not aware of any additional legal or arbitration proceedings pending or threatened against the Company which may have any liability significantly in excess of provisions in the accounts.

## 11. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of the Company's financial instruments at March 31, 1998 are as follows:

Loans from affiliated company: It was not practicable to estimate the fair value of the Company's loans from its affiliates because no quoted market prices exist for these unique instruments and there is no intent by management to retire the debts.

## 12. OFF-BALANCE SHEET RISK

Letters of credit are issued by the Company during the ordinary course of business through banks as required by certain vendor contracts. As of March 31, 1997 and 1998, the Company had outstanding irrevocable stand-by letters of credit for \$27,336 and \$66,842, respectively.

Subsequent to March 31, 1998, the Company secured a bond in the amount of \$32,786 and canceled its previously outstanding stand-by letter of credit in the amount of \$4,000, in connection with a class action lawsuit in Minnesota (see Note 10). The Company and THORN are both guarantors of the bond.

The Company has secured a bond in the amount of \$100,000 in connection with a class action lawsuit in New Jersey (See Note 10). The Company and THORN are both guarantors of the bond.

The Company has a \$20,000 unused line of credit with a financial institution.

## 13. RESTRUCTURING CHARGES

During fiscal 1998, the Company discontinued its new concept tests related to its credit retail and check-cashing businesses, closed certain nonperforming rental purchase stores and reorganized certain administrative support functions resulting in a charge to operating income of \$12,292. Such restructuring charges include asset valuation reductions of approximately \$3,750, future rent obligations of approximately \$2,250, employee severance costs of approximately \$5,250 and other costs of approximately \$1,042. As of March 31, 1998, \$6,851 of total restructuring charges remained in accrued liabilities.

During 1996, the Company recorded restructuring charges of \$12,600 related to consolidation of offices and reductions in the number of employees. These charges were

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
(DOLLARS IN THOUSANDS)

## 13. RESTRUCTURING CHARGES -- (CONTINUED)

primarily made up of the expected costs of employee separations. There was no remaining liability at March 31, 1998.

## 14. MERGER TRANSACTION

On June 17, 1998 THORN announced that it has entered into an agreement to sell the Company to Renters Choice, Inc., a publicly held rent-to-own company for approximately \$900,000 subject to shareholder and Federal Trade Commission approval. A closing date for the transaction has not yet been determined.

## 15. SUBSEQUENT EVENT (UNAUDITED)

In August 1998, subsequent to its change of control, the Company reached a tentative settlement with the plaintiffs in Wisconsin, in the amount of \$16.25 million. Such amount has been accrued in the June 30, 1998 financial statements.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To The Board of Directors of  
Central Rents, Inc.

We have audited the accompanying balance sheets of Central Rents, Inc. (a Delaware corporation) as of December 31, 1997 and 1996, and the related statements of operations, stockholders' equity (deficit) and cash flows for the years ended December 31, 1997, 1996 and 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Rents, Inc. as of December 31, 1997 and 1996, and the results of its operations and its cash flows for the years ended December 31, 1997, 1996 and 1995 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Los Angeles, California  
March 19, 1998



## CENTRAL RENTS, INC.

BALANCE SHEETS  
DECEMBER 31, 1996, 1997 AND MARCH 31, 1998 (UNAUDITED)

	DECEMBER 31,		MARCH 31,
	1996	1997	1998
	(UNAUDITED)		
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)		
<b>ASSETS</b>			
Cash and Cash Equivalents.....	\$ 12,808	\$ 5,739	\$ 11,526
Receivables and Prepaid Expenses.....	2,348	2,396	2,016
Due from Related Parties.....	--	115	--
Income Tax Receivable -- Related Party.....	1,871	--	--
Rental Merchandise, at cost.....	66,289	68,205	63,344
Less -- Accumulated depreciation.....	(31,908)	(31,461)	(31,621)
	-----	-----	-----
	34,381	36,744	31,723
Property and Equipment, at cost			
Leasehold improvements.....	3,355	4,905	5,880
Furniture and equipment.....	2,037	2,981	4,256
Vehicles.....	134	73	57
	-----	-----	-----
	5,526	7,959	10,193
Less -- Accumulated depreciation.....	(2,834)	(4,127)	(6,622)
	-----	-----	-----
	2,692	3,832	3,571
Deferred Financing Costs, net.....	1,957	1,603	1,535
Noncompete Agreement, net.....	1,275	--	--
Excess of Cost over Net Assets Acquired, net.....	6,861	6,611	6,549
Deferred Income Taxes.....	8,156	10,595	11,045
Other Assets.....	114	125	131
	-----	-----	-----
Total Assets.....	\$ 72,463	\$ 67,760	\$ 68,096
	=====	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>			
<b>Liabilities:</b>			
Accounts Payable.....	\$ 5,332	\$ 4,688	\$ 2,715
Accrued Expenses.....	5,682	6,058	7,380
Due to Related Parties.....	237	--	--
Income Tax Payable -- Related Party.....	--	434	249
Accrued Interest.....	322	322	2,253
Long-term Notes.....	58,094	58,368	58,437
	-----	-----	-----
Total liabilities.....	69,667	69,870	71,034
	-----	-----	-----
Commitments and Contingencies.....	--	--	--
<b>STOCKHOLDERS' EQUITY (DEFICIT):</b>			
Preferred stock, \$.01 par value, 100 shares authorized; no shares issued.....	--	--	--
Common stock, \$.01 par value, 2,000,000 shares authorized; 551,045, 617,045 and 617,045 shares issued and outstanding in 1996, 1997 and 1998 (unaudited), respectively.....	6	7	7
Additional paid-in capital.....	22,944	22,944	22,944
Retained deficit.....	(20,154)	(25,061)	(25,889)
	-----	-----	-----
Total stockholders' equity (deficit).....	2,796	(2,110)	(2,938)
	-----	-----	-----
Total liabilities and stockholders' equity (deficit).....	\$ 72,463	\$ 67,760	\$ 68,096
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

## CENTRAL RENTS, INC.

## STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 1995, 1996 AND 1997  
AND FOR THE UNAUDITED PERIODS ENDED MARCH 31, 1997 AND 1998

	DECEMBER 31,			MARCH 31,	
	1995	1996	1997	1997	1998
	(UNAUDITED)				
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
Revenues:					
Rental revenues.....	\$112,243	\$103,382	\$98,582	\$ 23,528	\$21,935
Sales of merchandise.....	5,736	5,243	4,847	1,146	1,484
Other revenue.....	65	152	114	2,062	1,782
	-----	-----	-----	-----	-----
	118,044	108,777	103,543	26,736	25,201
	-----	-----	-----	-----	-----
Costs and Expenses:					
Selling, general and administrative.....	61,991	61,475	62,544	15,682	15,196
Cost of merchandise sold...	3,658	3,852	3,520	1,098	1,058
Depreciation and amortization					
Rental merchandise.....	36,694	32,045	30,407	7,660	7,664
Property and equipment.....	1,541	1,538	1,711	367	517
	-----	-----	-----	-----	-----
	103,884	98,910	98,182	24,807	24,435
	-----	-----	-----	-----	-----
Income before interest, taxes and amortization of intangibles.....	14,160	9,867	5,361	1,929	766
Amortization of intangibles.....	19,601	5,192	1,545	818	65
	-----	-----	-----	-----	-----
Income (loss) from operations.....	(5,441)	4,675	3,816	1,111	701
Interest expense, net.....	(7,464)	(7,555)	(7,849)	(1,914)	(1,979)
	-----	-----	-----	-----	-----
Loss before income tax benefit.....	(12,905)	(2,880)	(4,033)	(803)	(1,278)
Income tax benefit.....	3,750	1,040	1,126	289	450
	-----	-----	-----	-----	-----
Net loss.....	\$ (9,155)	\$ (1,840)	\$(2,907)	\$ (514)	\$ (828)
	=====	=====	=====	=====	=====
Per share data:					
Basic net loss per common share.....	\$ (16.89)	\$ (3.34)	\$ (4.79)	\$ (0.89)	\$ (1.34)
	=====	=====	=====	=====	=====
Diluted net loss per common share.....	\$ (16.89)	\$ (3.34)	\$ (4.79)	\$ (0.89)	\$ (1.34)
	=====	=====	=====	=====	=====
Weighted average common shares outstanding.....	541,985	551,045	606,557	575,000	617,045
	=====	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

## CENTRAL RENTS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
 FOR THE YEARS ENDED DECEMBER 31, 1995, 1996 AND 1997 AND  
 FOR THE PERIOD ENDED MARCH 31, 1998 (UNAUDITED)

	COMMON STOCK		PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TOTAL
	SHARES	PAR VALUE			
	(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)				
BALANCE, December 31, 1994....	534,000	\$ 5	\$22,195	\$ (9,159)	\$13,041
Issuance of common stock....	17,045	1	749	--	750
Net loss for the year ended December 31, 1995.....	--	--	--	(9,155)	(9,155)
BALANCE, December 31, 1995.....	551,045	6	22,944	(18,314)	4,636
Net loss for the year ended December 31, 1996.....	--	--	--	(1,840)	(1,840)
BALANCE, December 31, 1996....	551,045	6	22,944	(20,154)	2,796
Dividends paid.....	--	--	--	(2,000)	(2,000)
Exercise of stock warrants.....	66,000	1	--	--	1
Net loss for the year ended December 31, 1997.....	--	--	--	(2,907)	(2,907)
BALANCE, December 31, 1997....	617,045	7	22,944	(25,061)	(2,110)
Net loss for the unaudited period ended March 31, 1998.....	--	--	--	(828)	(828)
BALANCE, March 31, 1998 (unaudited).....	617,045	\$ 7	\$22,944	\$(25,889)	\$(2,938)

The accompanying notes are an integral part of these financial statements.

## CENTRAL RENTS, INC.

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1995, 1996 AND 1997  
AND FOR THE UNAUDITED PERIODS ENDED MARCH 31, 1997 AND 1998

	DECEMBER 31,			MARCH 31,	
	1995	1996	1997	1997	1998
	(UNAUDITED)				
	(DOLLARS IN THOUSANDS)				
Cash flows from operating activities:					
Net loss.....	\$ (9,155)	\$ (1,840)	\$ (2,907)	\$ (514)	\$ (828)
Adjustments to reconcile net loss to net cash (used) provided by operating activities:					
Depreciation of rental merchandise.....	36,694	32,045	30,407	7,660	7,664
Depreciation of property and equipment....	1,541	1,538	1,711	367	517
Deferred income tax benefit.....	(3,950)	(26)	(1,286)	(289)	(450)
Amortization of intangibles.....	19,601	5,192	1,545	818	65
Amortization of debt discount.....	274	274	274	68	69
Amortization of deferred financing costs.....	316	330	163	83	68
Changes in operating assets and liabilities, net of the effect of businesses acquired:					
Decrease (increase) in receivables, prepaid expenses and other assets....	742	(354)	(59)	608	371
Decrease (increase) in due from related parties.....	--	--	(115)	--	115
Decrease (increase) in income tax receivable -- related party.....	(1,050)	(821)	1,871	(2)	--
Increase in rental merchandise, (purchases and retirement), net.....	(41,095)	(31,561)	(32,865)	(6,900)	(2,643)
Decrease in deferred financing costs....	--	--	191	--	--
Increase (decrease) in accounts payable.....	1,677	(4,891)	(644)	(2,813)	(1,973)
Increase (decrease) in accrued expenses.....	(856)	(494)	377	266	1,322
Increase in accrued interest.....	--	--	--	1,931	1,931
(Decrease) increase in due to related parties.....	(136)	(523)	(237)	116	(185)
Decrease in income taxes payable -- related party.....	--	--	(715)	--	--
Increase in income taxes payable.....	--	419	--	--	--
Net cash (used) provided by operating activities.....	4,603	(712)	(2,289)	1,399	6,043
Cash flows from investing activities:					
Proceeds from store sales.....	515	--	95	--	--
Purchase of property and equipment.....	(2,114)	(1,032)	(2,851)	(1,094)	(256)
Purchase of rental agreements and stores....	(1,110)	--	(24)	(24)	--
Purchase of rent-to-own and WBC, net of cash acquired.....	(3,669)	--	--	--	--
Net cash (used) provided by investing activities.....	(6,378)	(1,032)	(2,780)	(1,118)	(256)
Cash flows from financing activities:					
Dividends paid.....	--	--	(2,000)	(2,000)	--
Proceeds from issuance of common stock.....	750	--	--	--	--
Debt issuance costs.....	(176)	--	--	--	--
Net cash (used) provided by financing activities.....	574	--	(2,000)	(2,000)	--
Net decrease in cash and cash equivalents.....	(1,201)	(1,744)	(7,069)	(1,719)	5,787
Cash and cash equivalents, beginning of year.....	15,753	14,552	12,808	12,808	5,739
Cash and cash equivalents, end of year.....	\$ 14,552	\$ 12,808	\$ 5,739	\$ 11,089	\$ 11,526
	=====	=====	=====	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid during the period for:					
Income taxes.....	\$ 1,271	\$ 1,190	\$ 160	\$ 22	\$ 3
Interest.....	\$ 7,725	\$ 7,852	\$ 7,784	\$ 430	\$ 436

The accompanying notes are an integral part of these financial statements.

## CENTRAL RENTS, INC.

## NOTES TO FINANCIAL STATEMENTS

## 1. HISTORY AND BUSINESS ACTIVITY

Central Rents, Inc. (the "Company") was incorporated in the State of Delaware on March 17, 1994 to acquire RTO Enterprises, Inc. ("RTO") and WBC Holdings, Inc. ("WBC"). The Company is a wholly-owned subsidiary of Central Rents Holding, Inc. which is a wholly-owned subsidiary of Banner Holdings, Inc. ("Banner"), its ultimate parent company. All activity of the Company prior to the acquisition of RTO and WBC ("Acquisition") related to its formation, including an infusion of \$20,000,000 of cash equity in exchange for the issuance of 534,000 shares of common stock. On April 28, 1995, RTO and WBC were merged into the Company pursuant to a statutory merger effected in accordance with the provisions of the Delaware General Corporation Laws.

The Company's predecessors have been engaged in the rental-purchase industry since 1968. As of December 31, 1997, the Company operated 175 rental-purchase stores in 20 states throughout the United States. The stores rent a broad range of consumer products, including electronics, major appliances, jewelry and furniture.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Rental Merchandise, Depreciation and Revenue Recognition

Rental merchandise is rented by customers through rental-purchase agreements providing for weekly or monthly payments. The agreements automatically renew with each payment. Rent is collected in advance at the beginning of each rental period, is nonrefundable and is recognized as revenue over the rental term. Ownership of the rental items passes to the customer when the customer makes the requisite number of rental payments stipulated by the agreement, generally 12 to 30 monthly payments. In the accompanying statements of operations, sales of merchandise primarily includes cash received for outright sales of previously rented merchandise and final rental payments immediately preceding the passage of title to the respective customers. Cost of merchandise sold represents the undepreciated cost of merchandise on the date of sale.

Rental merchandise is recorded at cost. The Company has determined that the estimated useful lives of its rental merchandise averaged approximately 22 months, with no salvage value, and such period is used for depreciation purposes.

## Property and Equipment

Property and equipment, including leasehold improvements, are recorded at cost. Additions, improvements and renewals which significantly add to the asset value or extend the life of the asset are capitalized. Expenditures for maintenance and repairs are expensed as such costs are incurred.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

The Company uses the straight-line method for recording depreciation. The estimated useful lives used in computing depreciation for financial reporting purposes are as follows:

Leasehold improvements.....	Life of lease
Furniture and equipment.....	3-7 years
Vehicles.....	3 years

## Deferred Financing Costs

Deferred financing costs represent debt issuance costs and are amortized using the interest method over the term of the long-term notes. As of December 31, 1996 and 1997 and as of the unaudited period ending March 31, 1998, accumulated amortization amounted to \$817,000, \$980,000 and \$1,047,000, respectively.

## Advertising

The Company generally expenses production cost of print and television advertisements as of the first date the advertisements takes place unless they are expected to benefit future periods. Advertising expenses included in selling, general and administrative expenses were \$5,394,000 in 1995, \$5,822,000 in 1996, \$6,668,000 in 1997, and \$1,570,000 and \$1,204,000 for unaudited periods ending March 31, 1997 and 1998, respectively.

## Noncompete Agreement

In connection with the Acquisition, one of the sellers entered into a noncompete agreement with the Company. The noncompete agreement was amortized over its contractual life of 3 years. Amortization of the noncompete agreement was 50% in year one, 35% in year two and 15% in year three. As of December 31, 1996 and 1997, and as of the unaudited period ending March 31, 1998, accumulated amortization amounted to \$18,725,000, \$20,000,000 and \$20,000,000, respectively. The agreement was fully amortized at June 30, 1997.

## Accounting for Impairment of Long-Lived Assets

The Company evaluates all long-lived assets, including all intangible and other assets, for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Impairment is recognized when the carrying amounts of such assets cannot be recovered by the undiscounted future net cash flows likely to be generated. Impairment is measured as the amount by which the carrying value of the asset exceeds the fair value. Fair value is based on management's knowledge of current market conditions or the present value of estimated expected future cash flows.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

## Excess of Cost Over Net Assets Acquired

The excess of cost over net assets acquired, which relates to the acquisition of rent-to-own and WBC and other stores in 1995, is being amortized on a straight-line basis over a period of 30 years. The purchase price is subject to change upon the resolution of certain issues with the seller. The Company periodically reviews the excess of cost over net assets acquired to assess recoverability. Impairment would be recognized in operating results if a permanent diminution in value were to occur. At year end, 1995, the Company specifically reviewed the excess of cost over net assets acquired related to its California operations. The Company undertook such a review in light of much lower operating results experienced by these operations, due in a large part to the new California legislation regulating rental-purchase transactions which became effective on January 1, 1995 (the "California Legislation"). The California Legislation limited the Company's ability to collect certain types of fees. Based upon the then current economic environment and future outlook, the Company determined that approximately \$3.0 million of excess of cost over net assets acquired related to its California operations had been impaired and therefore such amount was charged-off as of December 31, 1995. As of December 31, 1996 and 1997 and as of the unaudited period ending March 31, 1998, accumulated amortization amounted to \$3,712,000, \$3,960,000 and \$4,022,000, respectively.

## Cash and Cash Equivalents

The Company invests excess cash from operations in short-term investment grade commercial paper and repurchase agreements. The Company considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

## Concentration of Credit Risk

The Company places its temporary cash and cash investments with high quality financial institutions. Management monitors the financial creditworthiness of these financial institutions. At times, such investments may be in excess of insured limits.

## Long-term Notes

The fair value of the Company's long-term notes is estimated as required by Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments". The fair value is based on the quoted market prices for the same or similar issues. Management believes that the fair value of its long-term notes approximates the carrying value as of December 31, 1996 and 1997 and as of the unaudited period ending March 31, 1998.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

## Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires the use of the liability method of accounting for income taxes. Deferred taxes are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect.

The Company and Banner have entered into a tax sharing agreement which provides, among other things, for the sharing of federal consolidated and state combined income tax liabilities and refunds. Under the tax sharing agreement, payments and refunds will be calculated by the Company on a separate company basis. The Company will repay Banner \$434,000 due to limitations that apply to loss carryovers on a separate company basis due to a change in the method used in allocating the tax liabilities in the prior years. The Company recorded an income tax benefit in 1995, 1996 and 1997 of \$3,750,000, \$1,040,000 and \$1,126,000, respectively, and income taxes receivable from Banner of \$1,871,000 at December 31, 1996 and income taxes payable to Banner of \$434,000 at December 31, 1997.

## Earnings Per Share

Earnings per common share is computed using the weighted average number of shares outstanding and dilutive common stock equivalents (options and warrants). No common stock equivalents were used in the computation as the impact would be anti-dilutive.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"), Statement of Financial Accounting Standards No. 130 "Reporting Comprehensive Income" ("SFAS 130") and Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of Enterprise and Related Information" ("SFAS 131") in fiscal year 1997. The Company adopted SFAS 128 in 1997 and will adopt SFAS 130 and 131 in 1998. The Company does not expect that the adoption of SFAS 130 and SFAS 131 will have a material effect on its financial position or its results of operations for the year ended December 31, 1998.



## CENTRAL RENTS, INC.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

As described above, the Company reports earnings per share according to the provisions of SFAS 128. The following table presents a reconciliation of basic earnings per share and diluted earnings per share. The denominator of diluted earnings per share includes the effect of dilutive common stock equivalents. There were no potentially dilutive securities that were outstanding at December 31, 1997 and as of the unaudited period ended March 31, 1998.

	BASIC EARNINGS PER SHARE	DILUTED EARNINGS PER SHARE
	-----	
	(DOLLARS IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)	
For the Year Ended December 31, 1995		
Numerator -- net loss.....	\$ (9,155)	\$ (9,155)
Denominator -- weighted average shares outstanding.....	541,985	541,985
Loss per share.....	\$ (16.89)	\$ (16.89)
For the Year Ended December 31, 1996		
Numerator -- net loss.....	\$ (1,840)	\$ (1,840)
Denominator -- weighted average shares outstanding.....	551,045	551,045
Loss per share.....	\$ (3.34)	\$ (3.34)
For the Year Ended December 31, 1997		
Numerator -- net loss.....	\$ (2,907)	\$ (2,907)
Denominator -- weighted average shares outstanding.....	606,557	606,557
Loss per share.....	\$ (4.79)	\$ (4.79)
For the Period Ended March 31, 1997 (Unaudited)		
Numerator -- net loss.....	\$ (514)	\$ (514)
Denominator -- weighted average shares outstanding.....	575,000	575,000
Loss per share.....	\$ (0.89)	\$ (0.89)
For the Period Ended March 31, 1998 (Unaudited)		
Numerator -- net loss.....	\$ (828)	\$ (828)
Denominator -- weighted average shares outstanding.....	617,045	617,045
Loss per share.....	\$ (1.34)	\$ (1.34)

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

## Balance Sheet Presentation

The Company's balance sheet is presented on a non-classified basis consistent with industry practice.

## Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts, generally not by material amounts. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the Company's financial position and results of operations.

Included in the accompanying balance sheet is a deferred tax asset of \$10.6 million as of December 31, 1997 and \$11.1 million as of the unaudited period ended March 31, 1998. Management believes it is more likely than not that it will realize the net deferred tax assets. The Company expects to realize this recorded deferred tax asset through the potential disposition of all or a part of the assets of the Company some time in the future, or through taking the Company public providing for additional capital for growth and expansion.

## Reclassifications

Certain reclassifications have been made to previously reported amounts to conform to the current year presentation.

## 3. LONG-TERM NOTES

The Company funded the purchase price for the stock and notes of RTO and WBC from the proceeds of an offering of Units (the "Offering"), consisting of \$60,000,000 principal amount of Senior Notes and Warrants to purchase 60,000 shares of common stock of the Company. The long-term notes were issued at a price equal to 96.3% of the aggregate principal amount. Of the total proceeds, \$57,389,000 was allocated to Notes and \$2,200,000 was allocated to the issuance of Warrants. On or before February 28, 1997, all Warrant holders exercised their option to convert the Warrants into the Company's common stock.

On September 28, 1994, the Company's Registration Statement under the Securities Act relating to the issuance by the Company of \$60,000,000 principal amount of 12 7/8% Series B Senior Notes due 2003 (the "New Notes") in exchange for the outstanding Notes (the "Exchange Offer") was declared effective by the Securities and Exchange Commission. Upon its effectiveness, the Company commenced the Exchange Offer, pursuant to which all of the outstanding Notes were tendered and exchanged on or prior to

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 3. LONG-TERM NOTES -- (CONTINUED)

October 28, 1994. The terms of the New Notes and the Notes are identical in all material respects, except for certain transfer restrictions and registration rights relating to the Notes.

The New Notes bear interest at the rate of 12 7/8% per annum payable semi-annually on December 15 and June 15, commencing December 15, 1994. On or after June 15, 1999, the New Notes will be redeemable at the option of the Company, in whole or in part, at the redemption prices as defined plus accrued and unpaid interest to the date of redemption.

In connection with the issuance of the Notes, the Company executed an indenture dated June 3, 1994 (the "Indenture"). The Indenture contains certain covenants that, among other things, limit the ability of the Company and its subsidiaries to incur additional Indebtedness (as defined), pay dividends in excess of \$2.0 million or make certain other Restricted Payments (as defined), enter into certain transactions with affiliates, sell assets or enter into certain mergers and consolidations. In addition, under certain circumstances, the Company is required to offer to purchase the long-term notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase, with proceeds from certain asset sales (as defined). Interest expense on the New Notes amounted to \$7,725,000 in 1995, 1996 and 1997 and \$2,067,000 for the unaudited period ended March 31, 1997 and 1998.

On May 10, 1997, the Company canceled a revolving line of credit agreement with Wells Fargo Bank (the "Line of Credit") which was entered into on May 9, 1995. The Line of Credit was subject to an annual commitment fee payable to the bank on a quarterly basis of 0.5% of the unused borrowings.

## 4. COMMITMENTS AND CONTINGENCIES

## Leases

The Company has various operating leases, which generally have an initial lease term of 18 to 60 months. The operating leases are for office facilities, store locations, rental of vehicles, office equipment and various other assets. Generally leases for store locations contain renewal options for periods up to six years. Rental expenses related to these leases during 1995, 1996 and 1997 and for the unaudited periods ending March 31, 1997 and 1998 amounted to \$7,667,000, \$6,755,000, \$7,545,000, \$1,809,000 and \$2,174,000,

## CENTRAL RENTS, INC.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 4. COMMITMENTS AND CONTINGENCIES -- (CONTINUED)

respectively. The future minimum annual rental commitments under operating leases which have initial noncancelable lease terms in excess of one year are as follows:

YEAR ENDING DECEMBER 31,	VEHICLES	REAL ESTATE	TOTAL
1998.....	\$2,236,000	\$ 5,911,000	\$ 8,147,000
1999.....	1,604,000	3,969,000	5,573,000
2000.....	1,208,000	3,047,000	4,255,000
2001.....	313,000	1,595,000	1,908,000
2002.....	1,000	1,046,000	1,047,000
Thereafter.....	--	360,000	360,000
	-----	-----	-----
	\$5,362,000	\$15,928,000	\$21,290,000
	=====	=====	=====

## Litigation

The Company is a party to legal proceedings arising in the normal course of business. Based on consultation with legal counsel and on the facts currently available, it is management's opinion that the ultimate resolution of these matters will not have a material adverse effect on the Company's financial position or results of operations.

## Letters of Credit

The Company utilizes standby letters of credit to satisfy property and vehicle insurance security deposit requirements. These letters of credit are irrevocable and have one-year renewable terms. Outstanding standby letters of credit as of December 31, 1996 and 1997 were \$200,000 and \$862,000, respectively, and \$1,162,000 as of the unaudited period ended March 31, 1998.

## CENTRAL RENTS, INC.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 5. INCOME TAXES

The benefit for income taxes is comprised of the following:

	1995	1996	1997
	-----	-----	-----
Current:			
Federal.....	\$ 36,000	\$(1,061,000)	\$ --
State and local.....	164,000	47,000	160,000
	-----	-----	-----
	200,000	(1,014,000)	160,000
	-----	-----	-----
Deferred:			
Federal.....	(3,150,000)	(20,000)	(660,000)
State and local.....	(800,000)	(6,000)	(626,000)
	-----	-----	-----
	(3,950,000)	(26,000)	(1,286,000)
	-----	-----	-----
Total tax benefit.....	\$(3,750,000)	\$(1,040,000)	\$(1,126,000)
	=====	=====	=====

The benefit for income taxes differs from the amount obtained by applying the federal statutory income tax rate to the loss before income taxes as follows:

	1995	1996	1997
	-----	-----	-----
Expected provision (benefit) for federal income taxes.....	(35.0)%	(35.0)%	(35.0)%
State taxes -- net of federal deduction.....	(.1)	(5.2)	(7.8)
Nondeductible and other items.....	6.1	4.1	14.9
	-----	-----	-----
	(29.0)%	(36.1)%	(27.9)%
	=====	=====	=====

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 5. INCOME TAXES -- (CONTINUED)

The primary components of temporary differences which give rise to deferred taxes at December 31, 1997 and 1996 are:

	1996	1997
	-----	-----
Deferred Tax Assets:		
Depreciation of fixed assets.....	\$1,331,000	\$ 1,082,000
Reserves and other accrued expenses.....	1,585,000	1,542,000
Noncompete agreement amortization.....	6,200,000	6,411,000
Operating loss carry forward.....	--	3,901,000
Other.....	304,000	573,000
	-----	-----
Total deferred tax assets.....	9,420,000	13,509,000
Deferred Tax Liabilities:		
Rental merchandise.....	(601,000)	(648,000)
State income tax.....	(474,000)	(755,000)
Other.....	(189,000)	(1,511,000)
	-----	-----
Net deferred tax assets.....	\$8,156,000	\$10,595,000
	=====	=====

The Internal Revenue Service ("IRS") has examined certain of the Company's former subsidiaries. In connection with the Acquisition, the sellers entered into an agreement to indemnify the Company for income tax liabilities of RTO and WBC attributable to pre-acquisition tax periods. The results of these audits did not have a material adverse effect on the financial position of the Company.

The IRS published a revenue ruling in July 1995 providing that the Modified Accelerated Cost Recovery System ("MACRS") is the appropriate depreciation method for rental purchase merchandise. The Company has used the income forecast method of depreciation for tax accounting, and management believes that this method has been widely used throughout the rental-purchase industry prior to the publication of this revenue ruling. The Company received permission from the IRS and converted to the MACRS method of depreciation for tax accounting purposes only, effective January 1, 1996. This change in tax accounting method will require the Company to increase taxable income in future years in order to recapture depreciation deductions previously claimed on the Company's tax returns taken under the income forecast method of depreciation in advance of the time at which such deductions may have been allowable under the MACRS depreciation method. Management believes that the adoption of MACRS will not significantly impact the Company's financial position and results of operations.

The Company provides taxes on a separate company basis pursuant to its tax sharing agreement. Management believes it is more likely than not that it will realize the net deferred tax assets and accordingly no valuation allowance has been provided. This conclusion is based on the expectation of future taxable income relating to the potential

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 5. INCOME TAXES -- (CONTINUED)

disposition of all or a part of the assets of the Company or through taking the Company public providing for additional capital for growth and expansion. If the Company is unable to generate sufficient taxable income through operating results or dispositions and alternative strategies are not viable, then the establishment of a valuation allowance may be necessary.

The Company has federal net operating loss carryforwards of approximately \$10,400,000 of which \$1,288,000 expires in 2010, \$2,295,000 expires in 2011 and \$6,817,000 expires in 2012. At December 31, 1997, the Company has state net operating loss carryforwards of approximately \$4,070,000 which expire at various times and various amounts through the year 2012.

## 6. RELATED PARTY TRANSACTIONS

The Company has entered into an Administrative Services Agreement (the "Administrative Services Agreement") with Banner pursuant to which Banner or one of the other Banner subsidiaries, other than the Company, provides purchasing, advertising, accounting, insurance, health and other benefits, real estate, management information systems, and other services to the Company. The Company is required to reimburse Banner for its allocable share of direct and overhead costs determined on the basis of the Company's percentage utilization of the applicable services contemplated by the Administrative Services Agreement. The Administrative Services Agreement had an initial term of two years beginning June 3, 1994 and will be automatically extended for up to eight successive one-year terms after the end of the initial term unless the Company gives at least 30 days prior notice at the end of the then current term that the Administrative Services Agreement will terminate. As long as Banner or any other Banner subsidiary beneficially owns more than 50% of the voting stock of the Company, the Administrative Services Agreement shall not be terminable by Banner or any other Banner subsidiary as a result of any breach of the Administrative Services Agreement by the Company. During 1995, 1996 and 1997, and during the unaudited periods ending March 31, 1997 and 1998, the Company purchased \$1,927,000, \$640,000, \$883,000, \$0 and \$201,000, respectively, of merchandise from Banner's Central Electric, a wholly owned subsidiary of Banner. The Company has not incurred any material common costs or expenses to be allocated during 1995, 1996 and 1997 and during the unaudited periods ending March 31, 1997 and 1998 in connection with the Administrative Services Agreement.

## CENTRAL RENTS, INC.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 6. RELATED PARTY TRANSACTIONS -- (CONTINUED)

The receivable from (payable to) related parties as of December 31, 1996 and 1997 and for the unaudited period ended March 31, 1998 are as follows:

	DECEMBER 31,		MARCH 31,
	1996	1997	1998
			(UNAUDITED)
Banner Holdings.....	\$2,371,000	\$(434,000)	\$(200,000)
Banner Central Electric.....	(656,000)	178,000	14,000
G. M. Cypres & Co. ....	(61,000)	(63,000)	(63,000)
Banner Central Electric Properties.....	(20,000)	--	--
	\$1,634,000	\$(319,000)	\$(249,000)
	=====	=====	=====

The Company and G. M. Cypres & Co., a related party through common ownership, entered into an agreement (the "Consulting Agreement") pursuant to which G. M. Cypres & Co. or its designee provides consulting, investment banking or similar services to the Company in consideration for the payment of certain fees and expenses, including an annual management fee (the "Management Fee"). Under the terms of the Indenture, the fees and expenses payable under the Consulting Agreement must be reasonable and customary, and the Management Fee shall not exceed \$375,000 per year. Management Fees charged under the terms of the Consulting Agreement totaled \$375,000 for the years ended December 31, 1995, 1996 and 1997 and \$93,750 for the unaudited periods ending March 31, 1997 and 1998.

Effective January 1, 1995, the Company entered into a triple net lease agreement with BCE Properties II, Inc., a related party of the Company through common ownership, for office space at the Company's corporate headquarters. The lease provides, among other things, for monthly rent of \$10,000 through December 31, 2005. Rent expense under the terms of the lease totaled \$120,000 for the years ended December 31, 1995, 1996 and 1997 and \$30,000 for the unaudited periods ending March 31, 1997 and 1998.

Management believes that all related party transactions were consummated on terms comparable to terms that could have been negotiated with third parties.

## 7. RETIREMENT SAVINGS PLAN

As of December 31, 1995 the Company terminated a 401(k) defined contribution plan covering substantially all employees of one of the Company's subsidiaries. The Company matched the first 6% of eligible compensation contributed by the participants at a rate of 25%. During 1995, the Company contributed \$49,000 to the plan.

The Company established a new 401(k) defined contribution plan in October 1997. The Company did not match employee contributions and had no other expenses related to the plan.



## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 8. STORE SALES AND CLOSINGS

During 1995, the Company purchased rental agreements from two competitors and transferred the agreements to existing stores, purchased two stores, closed one store and sold six stores that were not located within the Company's targeted geographic markets.

During 1996, the Company opened one new store and closed three stores and transferred the agreements of the closed stores into other operating stores in the area.

During 1997, the Company opened 13 new stores, sold the assets of one store, closed two stores and transferred their agreements into other operating stores in the area.

During the unaudited period ending March 31, 1998, the Company opened one new store.

## 9. STOCK TRANSACTIONS

## Issuance of Common Stock

On July 14, 1995 an outside institutional investor purchased 17,045 shares of common stock of the Company at a price of \$44.00 per share for an aggregate purchase price of \$750,000. The shares were issued pursuant to the terms of a letter agreement which places certain restrictions on the purchaser's ability to transfer the issued shares of stock.

As of February 28, 1997 all Warrant holders exercised their option to convert the Warrants into the Company's common stock. 66,000 shares of stock were issued for the Warrants at an exercise price of \$.01 per share; 60,000 relating to the initial offering and an additional 6,000 issued to the initial purchaser of the Notes.

## Stock Options

In 1994 the Board of Directors adopted a Stock Option Plan (the "1994 Plan"), to grant to certain key employees of the Company options to purchase shares of the common stock of the Company at fair market value. A percentage of the options vest on each year provided that the Company meets or exceeds certain financial performance standards during such year. If those standards are not attained in such year, that portion of the option that would have vested may vest in the year the Company does meet those standards. Management believes that those standards will be attained in future years, before the options expire in the year 2004, and therefore there is a potential that the options will be exercisable. The stock options granted pursuant to the 1994 Plan cannot exceed 15% of the fully diluted shares of common stock of the Company. As of December 31, 1996 and 1997 and for the unaudited period ending March 31, 1998, there were 90,000 shares of common stock reserved for the 1994 Plan.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 9. STOCK TRANSACTIONS -- (CONTINUED)

The following table summarizes stock option activity:

	STOCK OPTIONS	EXERCISE PRICE PER SHARE
	-----	-----
Outstanding at December 31, 1995.....	24,000	\$37.45
Granted.....	17,000	37.45
Expired or canceled.....	(11,000)	37.45
Exercised.....	--	
	-----	
Outstanding at December 31, 1996.....	30,000	37.45
Granted.....	--	37.45
Expired or canceled.....	(18,000)	37.45
Exercised.....	--	
	-----	
Outstanding at December 31, 1997 and for the unaudited period ending March 31, 1998.....	12,000	37.45
	=====	
Options exercisable at December 31, 1997 and for the unaudited period ending March 31, 1998.....	--	
	=====	

In October 1995, the Financial Accounting Standard Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 defines a fair value based method of accounting for employee stock compensation plans, but allows for the continuation of the intrinsic value based method of accounting to measure compensation cost prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25"). For companies electing not to change their accounting, SFAS 123 requires pro-forma disclosures of earnings and earnings per share as if the change in accounting provision of SFAS 123 has been adopted.

The Company has elected to continue to utilize the accounting method prescribed by APB 25, under which no compensation cost has been recognized, and adopt the disclosure requirements of SFAS 123. As a result, SFAS 123 has no effect on the financial condition or results of operations of the Company at December 31, 1996 and 1997 and for the unaudited period ending March 31, 1998.

## CENTRAL RENTS, INC.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 9. STOCK TRANSACTIONS -- (CONTINUED)

Had compensation cost for this plan been determined consistent with SFAS 123, the Company's net income and earnings per share would have been reduced to the following pro-forma amounts.

		DECEMBER 31,			MARCH 31,	
		1995	1996	1997	1997	1998
		(UNAUDITED)				
Net loss.....	As Reported	\$(9,155,000)	\$(1,840,000)	\$(2,907,000)	\$(514,000)	\$(828,000)
	Pro Forma	\$(9,198,000)	\$(1,889,000)	\$(2,929,000)	\$(536,000)	\$(850,000)
Basic EPS.....	As Reported	\$ (16.89)	\$ (3.34)	\$ (4.79)	\$ (0.89)	\$ (1.34)
	Pro Forma	\$ (16.97)	\$ (3.43)	\$ (4.83)	\$ (0.93)	\$ (1.38)
Diluted EPS.....	As Reported	\$ (16.89)	\$ (3.34)	\$ (4.79)	\$ (0.89)	\$ (1.34)
	Pro Forma	\$ (16.97)	\$ (3.43)	\$ (4.83)	\$ (0.93)	\$ (1.38)

The fair value of each option grant is estimated on the date of grant using an option pricing model with the following weighted-average assumptions used for grants: dividend yield of 0.0%, volatility of 0.0%, risk-free interest rate of 6.5% and expected lives of 5 years.

On January 7, 1997 the Company declared a cash dividend on its common stock to be paid to the holders of record of the Company's common stock as of February 28, 1997 payable on March 5, 1997.

## Dividends

On March 5, 1997, the Company paid a total cash dividend of \$2.0 million to the holders of its common stock at \$3.24 per share.

## 10. QUARTERLY FINANCIAL DATA (UNAUDITED):

	TOTAL REVENUES	INCOME FROM OPERATIONS	NET LOSS	BASIC NET LOSS PER SHARE	DILUTED NET LOSS PER SHARE
	-----	-----	-----	-----	-----
December 31, 1996.....	\$26,142	\$ 924	\$ (533)	\$ (.97)	\$ (.97)
September 30, 1996.....	\$26,468	\$1,418	\$ (320)	\$ (.58)	\$ (.58)
June 30, 1996.....	\$27,767	\$1,331	\$ (369)	\$ (.67)	\$ (.67)
March 31, 1996.....	\$28,400	\$1,002	\$ (618)	\$(1.12)	\$(1.12)
December 31, 1996.....	\$25,029	\$1,113	\$ (826)	\$(1.36)	\$(1.36)
September 30, 1997.....	\$25,409	\$ 170	\$(1,191)	\$(1.93)	\$(1.93)
June 30, 1997.....	\$26,394	\$1,422	\$ (376)	\$ (.61)	\$ (.61)
March 31, 1997.....	\$26,736	\$1,111	\$ (514)	\$ (.89)	\$ (.89)
March 31, 1998.....	\$25,201	\$ 701	\$ (828)	\$(1.34)	\$(1.34)

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 11. SUBSEQUENT EVENT

The Company entered into an Asset Purchase Agreement dated May 1, 1998 with Renters Choice, Inc. ("Renters"), Central Rents Holding, Inc. and Banner pursuant to which substantially all of the assets of the Company will be sold to Renters for approximately \$102,400,000. Completion of the transaction occurred on May 28, 1998 after obtaining necessary regulatory approvals and certain third party approvals and various other closing conditions.

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 NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY RENT-A-CENTER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE SECURITIES TO WHICH IT RELATES OR ANY OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SUCH SECURITIES IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION IS UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF RENT-A-CENTER SINCE THE DATE HEREOF OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

UNTIL APRIL , 1999, ALL DEALERS THAT EFFECT TRANSACTIONS IN THESE SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE DEALERS' OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THE UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

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 RENT-A-CENTER, INC.  
 COLORTYME, INC.  
 ADVANTAGE COMPANIES, INC.  
 OFFER TO EXCHANGE  
 11% SENIOR  
 SUBORDINATED NOTES  
 DUE 2008  
 FOR ALL OUTSTANDING  
 11% SENIOR SUBORDINATED NOTES  
 DUE 2008

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 PROSPECTUS  
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January , 1999

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## PART II

## INFORMATION NOT REQUIRED IN PROSPECTUS

## ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

## Delaware General Corporation Law

Section 145(a) of the DGCL provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Section 145(b) of the DGCL provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 145(c) of the DGCL provides that to the extent that a director, officer, employee or agent of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsections (a) and (b) of Section 145, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

Section 145(d) of the DGCL provides that any indemnification under subsections (a) and (b) of Section 145 (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in subsections (a) and (b) of Section 145. Such determination shall be made (1) by the board of directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if

such a quorum is not obtainable, or, even if obtainable, if a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders.

Section 145(e) of the DGCL provides that expenses (including attorneys' fees) incurred by an officer or director in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the corporation as authorized in Section 145. Such expenses (including attorneys' fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the board of directors deems appropriate.

#### AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

The Amended and Restated Certificate of Incorporation of the Company provides that a director of the Company shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the company or its stockholders, (ii) for acts or occasions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) in respect of certain unlawful dividend payments or stock purchases or redemptions or (iv) for any transaction from which the director derived an improper personal benefit. If the DGCL is amended to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the Company, in addition to the limitation on personal liability provided in the Amended and Restated Certificate of incorporation, will be limited to the fullest extent permitted by the DGCL, as amended. Further, any repeal or modification of such provision of the Amended and restated Certificate of Incorporation by the stockholders of the Company will be prospective only, and will not adversely affect any limitation on the personal liability of a director of the Company arising from an act or omission occurring prior to the time of such repeal or modification.

#### AMENDED AND RESTATED BYLAWS

The Amended and Restated Bylaws of the Company provide that each person who at any time is or was a director of the Company, and is threatened to be or is made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative (a "Proceeding"), by reason of the fact that such person is or was a director of the company, or is or was serving at the request of the Company as a director, officer, partner, venturer, proprietor, member, employee, trustee, agent or similar functionary of another domestic or foreign corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other for-profit or non-profit enterprise, whether the basis of a Proceeding is alleged action in such person's official capacity or in another capacity while holding such office, shall be indemnified and held harmless by the Company to the fullest extent authorized by the DGCL or any other applicable law as may from time to time be in effect (but, in the case of any such amendment or enactment, only to the extent that such amendment or statute permits the Company to provide broader indemnification rights than such law prior to such amendment



or enactment permitted the Company to provide), against all expense, liability and loss (including, without limitation, court costs and attorneys' fees, judgments, fines, excise taxes or penalties, and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such person in connection with a Proceeding, so long as a majority of a quorum of disinterested directors, the stockholders or legal counsel through a written opinion determines that such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and in the case of a criminal Proceeding, such person had no reasonable cause to believe his conduct was unlawful. Such indemnification shall continue as to a person who has ceased to serve in the capacity which initially entitled such person to indemnify thereunder and shall inure to the benefit of his or her heirs, executors and administrators. The Amended and Restated Bylaws also contain certain provisions designed to facilitate receipt of such benefits by any such persons, including the prepayment of any such benefit.

#### Indemnification Agreements

The Company has also entered into Indemnification Agreements pursuant to which it has agreed to indemnify certain of its directors and officers against judgments, claims, damages, losses and expenses incurred as a result of the fact that any director or officer, in his capacity as such, is made or threatened to be made a party to any suit or proceeding. Such persons will be indemnified to the fullest extent now or hereafter permitted by the DGCL. The Indemnification Agreements also provide for the advancement of certain expenses to such directors and officers in connection with any such suit or proceeding.

#### Insurance

The Company has obtained a directors' and officers' liability insurance policy insuring its directors and officers against losses resulting from wrongful acts committed by them in their capacities as directors and officers of the company, including liabilities arising under the Securities Act.

## ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

## (a) Exhibits

EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
1.1*	-- Purchase Agreement, dated August 13, 1998, by and among Renters Choice, Inc., Chase Securities Inc., Bear, Stearns & Co. Inc., Credit Suisse First Boston Corporation and NationsBank Montgomery Securities LLC
2.1(1)	-- Agreement and Plan of Reorganization dated May 15, 1996, among Renters Choice, Inc., ColorTyme, Inc., and CT Acquisition Corporation (Pursuant to the rules of the Commission, the schedules and exhibits have been omitted. Upon the request of the Commission, Renters Choice will supplementally supply such schedules and exhibits to the Commission.)
2.2(2)	-- Asset Purchase Agreement, dated May 1, 1998, by and among Renters Choice, Inc., Central Rents, Inc., Central Rents Holding, Inc. and Banner Holdings, Inc. (Pursuant to the rules of the Commission, the schedules and exhibits have been omitted. Upon the request of the Commission, Renters Choice will supplementally supply such schedules and exhibits to the Commission.)
2.3(3)	-- Letter Agreement, dated as of May 26, 1998, by and among Renters Choice, Inc., Central Rents, Inc., Central Rents Holding, Inc. and Banner Holdings, Inc. (Pursuant to the rules of the Commission, the schedules and exhibits have been omitted. Upon the request of the Commission, Renters Choice will supplementally supply such schedules and exhibits to the Commission.)
2.4(4)	-- Stock Purchase Agreement, dated as of June 16, 1998, among Renters Choice, Inc., Thorn International BV and Thorn plc (Pursuant to the rules of the Commission, the schedules and exhibits have been omitted. Upon the request of the Commission, the Company will supplementally supply such schedules and exhibits to the Commission.)
3.1(5)	-- Amended and Restated Certificate of Incorporation of Renters Choice
3.2(6)	-- Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Renters Choice
3.3(7)	-- Amended and Restated Bylaws of Renters Choice
3.4(8)	-- Amendment to the Amended and Restated Bylaws of Renters Choice
3.5*	-- Restated Certificate of Incorporation of Advantage Companies, Inc.
3.6*	-- Articles of Incorporation of ColorTyme, Inc. (formerly known as CT Acquisition Corporation)
3.7*	-- Articles of Merger of ColorTyme, Inc. into CT Acquisition Corporation

EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
3.8*	-- Bylaws of Advantage Companies, Inc.
3.9*	-- Amendment to the Bylaws of Advantage Companies, Inc.
3.10*	-- Bylaws of ColorTyme, Inc. (formerly known as CT Acquisition Corporation)
4.1*	-- Form of Certificate evidencing Common Stock
4.2(9)	-- Certificate of Designations, Preferences and Relative Rights and Limitations of Series A Preferred Stock of Renters Choice, Inc.
4.3(10)	-- Certificate of Designations, Preferences and Relative Rights and Limitations of Series B Preferred Stock of Renters Choice, Inc.
4.4*	-- Indenture, dated as of August 18, 1998, by and among Renters Choice, Inc., as Issuer, ColorTyme, Inc. and Rent-A-Center, Inc., as Subsidiary Guarantors, and IBJ Schroder Bank & Trust Company, as Trustee
4.5*	-- Form of Certificate evidencing Series A Preferred Stock
4.6*	-- Form of Exchange Note
4.7*	-- First Supplemental Indenture, dated as of December 31, 1998, by and among Renters Choice Inc., Rent-A-Center, Inc., ColorTyme, Inc., Advantage Companies, Inc. and IBJ Schroder Bank & Trust Company, as Trustee.
5.1*	-- Opinion of Winstead Sechrest & Minick P.C. regarding legality of the securities offered.
10.1(11)	-- Amended and Restated 1994 Renters Choice, Inc. Long-Term Incentive Plan
10.2(12)	-- Revolving Credit Agreement dated as of November 27, 1996 between Comerica Bank, as agent, Renters Choice, Inc. and certain other lenders
10.3(13)	-- Portfolio Acquisition Agreement dated May 15, 1996, by and among Renters Choice, Inc., ColorTyme Financial Services, Inc., and STI Credit Corporation
10.4(14)	-- Employment Agreement, dated March 28, 1997, by and between Renters Choice, Inc. and Danny Z. Wilbanks
10.5(15)	-- Stock Option Agreement, dated April 1, 1997, by and between Renters Choice, Inc. and Danny Z. Wilbanks
10.6(16)	-- Credit Agreement, dated August 5, 1998, among Renters Choice, Inc., Comerica Bank, as Documentation Agent, NationsBank N.A., as Syndication Agent, and The Chase Manhattan Bank, as Administrative Agent, and certain other lenders
10.7(17)	-- Guarantee and Collateral Agreement, dated August 5, 1998, made by Renters Choice, Inc., and certain of its Subsidiaries in favor of the Chase Manhattan Bank, as Administrative Agent
10.8(18)	-- \$175,000,000 Senior Subordinated Credit Agreement, dated as of August 5, 1998, among Renters Choice, Inc., certain other lenders and the Chase Manhattan Bank

EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
10.9(19)	-- Stockholders Agreement, dated as of August 5, 1998, by and among Apollo Investment Fund IV, L.P., Apollo Overseas Partners IV, L.P., J. Ernest Talley, Mark E. Speese, Renters Choice, Inc., and certain other persons
10.10(20)	-- Registration Rights Agreement, dated August 5, 1998, by and between Renters Choice, Inc., Apollo Investment Fund IV, L.P., and Apollo Overseas Partners IV, L.P., related to the Series A Convertible Preferred Stock
10.11(21)	-- Registration Rights Agreement, dated August 5, 1998, by and between Renters Choice, Inc., Apollo Investment Fund IV, L.P., and Apollo Overseas Partners IV, L.P., related to the Series B Convertible Preferred Stock
10.13(22)	-- Stock Purchase Agreement, dated August 5, 1998, among Renters Choice, Inc., Apollo Investment Fund IV, L.P. and Apollo Overseas Partners IV, L.P.
10.14*	-- Exchange and Registration Rights Agreement, dated August 18, 1998, by and among Renters Choice, Inc. and Chase Securities Inc., Bear, Stearns & Co. Inc., NationsBank Montgomery Securities LLC and Credit Suisse First Boston Corporation
21.1*	-- Subsidiaries of Registrant
23.1**	-- Consent of Grant Thornton LLP
23.2**	-- Consent of Ernst & Young LLP
23.3**	-- Consent of Arthur Andersen LLP
23.4*	-- Consent of Winstead Sechrest & Minick P.C. (included as part of its opinion filed as Exhibits 5.1 and 8.1)
24.1*	-- Power of Attorney (included on signature page of this S-4)
25.1*	-- Statement of eligibility of IBJ Schroder Bank & Trust Company to act as Trustee
99.1*	-- Form of Letter of Transmittal
99.2*	-- Form of Notice of Guaranteed Delivery
99.3*	-- Form of Letter to Clients
99.4*	-- Form of Letter to Brokers

\* Previously filed.

\*\* Filed herewith.

- (1) Incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K dated May 15, 1996
- (2) Incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K dated May 28, 1998
- (3) Incorporated herein by reference to Exhibit 2.2 to the registrant's Current Report on Form 8-K dated May 15, 1996

- (4) Incorporated herein by reference to Exhibit 2.9 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998
- (5) Incorporated herein by reference to Exhibit 3.2 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1994
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- (11) Incorporated herein by reference to Exhibit 99.1 to the registrant's Registration Statement on Form S-8 (File No. 333- 53471)
- (12) Incorporated herein by reference to Exhibit 10.2 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1996
- (13) Incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated May 15, 1996
- (14) Incorporated herein by reference to Exhibit 10.16 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997
- (15) Incorporated herein by reference to Exhibit 10.16 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997
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- (21) Incorporated herein by reference to Exhibit 10.23 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998
- (22) Incorporated herein by reference to Exhibit 2.10 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998

## ITEM 22. UNDERTAKINGS.

(a) The undersigned registrant hereby undertakes that insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Act") may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim of indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(b) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the registration statement is on Form S-3, Form S-8 or Form F-3, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the SEC by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration

statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) If the registrant is a foreign private issuer, to file a post-effective amendment to the registration statement to include any financial statements required by Rule 3-19 of this chapter at the start of any delayed offering or throughout a continuous offering. Financial statements and information otherwise required by Section 10(a)(3) of the Act need not be furnished, provided, that the registrant includes in the prospectus, by means of a post-effective amendment, financial statements required pursuant to this paragraph (a)(4) and other information necessary to ensure that all other information in the prospectus is at least as current as the date of those financial statements. Notwithstanding the foregoing, with respect to registration statements on Form F-3, a post-effective amendment need not be filed to include financial statements and information required by Section 10(a)(3) of the Act or Rule 3-19 of this chapter if such financial statements and information are contained in periodic reports filed with or furnished to the SEC by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference on the Form F-3.

(c) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

(d) The undersigned registrant hereby undertakes to file an application for the purpose of determining the eligibility of the trustee to act under subsection (a) of Section 310 of the Trust Indenture Act in accordance with the rules and regulations prescribed by the SEC under Section 305(b)(2) of the Act.

(e) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all the requirements for filing on Form S-4 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Dallas, State of Texas, on January 19, 1999.

RENT-A-CENTER, INC.

By: /s/ MARK E. SPEESE

-----  
 Mark E. Speese  
 President  
 and Chief Operating Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE

TITLE

DATE

-----

-----

----

\*

-----  
 Chairman of the Board and  
 Chief Executive Officer  
 (Principal Executive  
 Officer)

January 19, 1999

-----  
 J. Ernest Talley

/s/ MARK E. SPEESE

-----  
 President, Chief Operating  
 Officer and Director

January 19, 1999

-----  
 Mark E. Speese

/s/ ROBERT D. DAVIS

-----  
 Vice President -- Finance,  
 Treasurer and Chief  
 Financial Officer  
 (Principal Financial and  
 Accounting Officer)

January 19, 1999

-----  
 Robert D. Davis

\*

-----  
 Director

January 19, 1999

-----  
 J.V. Lentell

\*

-----  
 Director

January 19, 1999

-----  
 Joseph V. Mariner

\*

-----  
 Director

January 19, 1999

-----  
 Rex W. Thompson

\*

-----  
 Director

January 19, 1999

-----  
 Laurence M. Berg

\*

-----  
 Director

January 19, 1999

-----  
 Peter P. Copses

-----  
 \*By: /s/ MARK E. SPEESE

-----  
 Mark E. Speese  
 Attorney-in-fact



## SUBSIDIARY GUARANTORS:

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all the requirements for filing on Form S-4 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Dallas, State of Texas, on January 19, 1999.

## ADVANTAGE COMPANIES, INC.

By: /s/ MARK E. SPEESE

-----  
 Mark E. Speese  
 Vice President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

## SIGNATURE

## TITLE

## DATE

-----  
 /s/ J. ERNEST TALLEY

-----  
 President (Principal  
 Executive Officer) and  
 Director

-----  
 January 19, 1999

-----  
 J. Ernest Talley

-----  
 /s/ MARK E. SPEESE

-----  
 Vice President and  
 Director

-----  
 January 19, 1999

-----  
 Mark E. Speese

-----  
 /s/ ROBERT D. DAVIS

-----  
 Vice President,  
 Secretary, Treasurer  
 (Principal Financial  
 and Accounting Officer)

-----  
 January 19, 1999

-----  
 Robert D. Davis

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all the requirements for filing on Form S-4 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Dallas, State of Texas, on January 19, 1999.

COLORTYME, INC.

By: /s/ MARK E. SPEESE

-----  
Mark E. Speese  
Vice President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE -----
* ----- Mitchell E. Fadel	President and Chief Executive Officer (Principal Executive Officer)	January 19, 1999
* ----- J. Ernest Talley	Director	January 19, 1999
/s/ MARK E. SPEESE ----- Mark E. Speese	Vice President and Director	January 19, 1999
/s/ ROBERT D. DAVIS ----- Robert D. Davis	Secretary (Principal Financial and Accounting Officer)	January 19, 1999
*By: /s/ MARK E. SPEESE ----- Mark E. Speese Attorney-in-fact		

## EXHIBIT INDEX

EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
1.1*	-- Purchase Agreement, dated August 13, 1998, by and among Renters Choice, Inc., Chase Securities Inc., Bear, Stearns & Co. Inc., Credit Suisse First Boston Corporation and NationsBanc Montgomery Securities LLC
2.1(1)	-- Agreement and Plan of Reorganization dated May 15, 1996, among Renters Choice, Inc., ColorTyme, Inc., and CT Acquisition Corporation (Pursuant to the rules of the Commission, the schedules and exhibits have been omitted. Upon the request of the Commission, Renters Choice will supplementally supply such schedules and exhibits to the Commission.)
2.2(2)	-- Asset Purchase Agreement, dated May 1, 1998, by and among Renters Choice, Inc., Central Rents, Inc., Central Rents Holding, Inc. and Banner Holdings, Inc. (Pursuant to the rules of the Commission, the schedules and exhibits have been omitted. Upon the request of the Commission, Renters Choice will supplementally supply such schedules and exhibits to the Commission.)
2.3(3)	-- Letter Agreement, dated as of May 26, 1998, by and among Renters Choice, Inc., Central Rents, Inc., Central Rents Holding, Inc. and Banner Holdings, Inc. (Pursuant to the rules of the Commission, the schedules and exhibits have been omitted. Upon the request of the Commission, Renters Choice will supplementally supply such schedules and exhibits to the Commission.)
2.4(4)	-- Stock Purchase Agreement, dated as of June 16, 1998, among Renters Choice, Inc., Thorn International BV and Thorn plc (Pursuant to the rules of the Commission, the schedules and exhibits have been omitted. Upon the request of the Commission, the Company will supplementally supply such schedules and exhibits to the Commission.)
3.1(5)	-- Amended and Restated Certificate of Incorporation of Renters Choice
3.2(6)	-- Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Renters Choice
3.3(7)	-- Amended and Restated Bylaws of Renters Choice
3.4(8)	-- Amendment to the Amended and Restated Bylaws of Renters Choice
3.5*	-- Restated Certificate of Incorporation of Advantage Companies, Inc.
3.6*	-- Articles of Incorporation of ColorTyme, Inc. (formerly known as CT Acquisition Corporation)
3.7*	-- Articles of Merger of ColorTyme, Inc. into CT Acquisition Corporation
3.8*	-- Bylaws of Advantage Companies, Inc.

EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
3.9*	-- Amendment to the Bylaws of Advantage Companies, Inc.
3.10*	-- Bylaws of ColorTyme, Inc. (formerly known as CT Acquisition Corporation)
4.1*	-- Form of Certificate evidencing Common Stock
4.2(9)	-- Certificate of Designations, Preferences and Relative Rights and Limitations of Series A Preferred Stock of Renters Choice, Inc.
4.3(10)	-- Certificate of Designations, Preferences and Relative Rights and Limitations of Series B Preferred Stock of Renters Choice, Inc.
4.4*	-- Indenture, dated as of August 18, 1998, by and among Renters Choice, Inc., as Issuer, ColorTyme, Inc. and Rent-A-Center, Inc., as Subsidiary Guarantors, and IBJ Schroder Bank & Trust Company, as Trustee
4.5*	-- Form of Certificate evidencing Series A Preferred Stock
4.6*	-- Form of Exchange Note
4.7*	-- First Supplemental Indenture, dated as of December 31, 1998, by and among Renters Choice Inc., Rent-A-Center, Inc., ColorTyme, Inc., Advantage Companies, Inc. and IBJ Schroder Bank & Trust Company, as Trustee.
5.1*	-- Opinion of Winstead Sechrest & Minick P.C. regarding legality of the securities offered.
10.1(11)	-- Amended and Restated 1994 Renters Choice, Inc. Long-Term Incentive Plan
10.2(12)	-- Revolving Credit Agreement dated as of November 27, 1996 between Comerica Bank, as agent, Renters Choice, Inc. and certain other lenders
10.3(13)	-- Portfolio Acquisition Agreement dated May 15, 1996, by and among Renters Choice, Inc., ColorTyme Financial Services, Inc., and STI Credit Corporation
10.4(14)	-- Employment Agreement, dated March 28, 1997, by and between Renters Choice, Inc. and Danny Z. Wilbanks
10.5(15)	-- Stock Option Agreement, dated April 1, 1997, by and between Renters Choice, Inc. and Danny Z. Wilbanks
10.6(16)	-- Credit Agreement, dated August 5, 1998, among Renters Choice, Inc., Comerica Bank, as Documentation Agent, NationsBank N.A., as Syndication Agent, and The Chase Manhattan Bank, as Administrative Agent, and certain other lenders
10.7(17)	-- Guarantee and Collateral Agreement, dated August 5, 1998, made by Renters Choice, Inc., and certain of its Subsidiaries in favor of the Chase Manhattan Bank, as Administrative Agent
10.8(18)	-- \$175,000,000 Senior Subordinated Credit Agreement, dated as of August 5, 1998, among Renters Choice, Inc., certain other lenders and the Chase Manhattan Bank

EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
10.9(19)	-- Stockholders Agreement, dated as of August 5, 1998, by and among Apollo Investment Fund IV, L.P., Apollo Overseas Partners IV, L.P., J. Ernest Talley, Mark E. Speese, Renters Choice, Inc., and certain other persons
10.10(20)	-- Registration Rights Agreement, dated August 5, 1998, by and between Renters Choice, Inc., Apollo Investment Fund IV, L.P., and Apollo Overseas Partners IV, L.P., related to the Series A Convertible Preferred Stock
10.11(21)	-- Registration Rights Agreement, dated August 5, 1998, by and between Renters Choice, Inc., Apollo Investment Fund IV, L.P., and Apollo Overseas Partners IV, L.P., related to the Series B Convertible Preferred Stock
10.13(22)	-- Stock Purchase Agreement, dated August 5, 1998, among Renters Choice, Inc., Apollo Investment Fund IV, L.P. and Apollo Overseas Partners IV, L.P.
10.14*	-- Exchange and Registration Rights Agreement, dated August 18, 1998, by and among Renters Choice, Inc. and Chase Securities Inc., Bear, Stearns & Co. Inc., NationsBanc Montgomery Securities LLC and Credit Suisse First Boston Corporation
21.1*	-- Subsidiaries of Registrant
23.1**	-- Consent of Grant Thornton LLP
23.2**	-- Consent of Ernst & Young LLP
23.3**	-- Consent of Arthur Andersen LLP
23.4*	-- Consent of Winstead Sechrest & Minick P.C. (included as part of its opinion filed as Exhibits 5.1 and 8.1)
24.1*	-- Power of Attorney (included on signature page of this S-4)
25.1*	-- Statement of eligibility of IBJ Schroder Bank & Trust Company to act as Trustee
99.1*	-- Form of Letter of Transmittal
99.2*	-- Form of Notice of Guaranteed Delivery
99.3*	-- Form of Letter to Clients
99.4*	-- Form of Letter to Brokers

\* Previously filed.

\*\* Filed herewith.

- (1) Incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K dated May 15, 1996
- (2) Incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K dated May 28, 1998
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## CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated February 12, 1998, accompanying the consolidated financial statements of Renters Choice, Inc. and Subsidiaries contained in the Registration Statement on Form S-4 and Prospectus. We consent to the use of the aforementioned report in this Registration Statement on Form S-4 and Prospectus, and to the use of our name as it appears under the caption "Experts".

GRANT THORNTON LLP

Dallas, Texas

January 19, 1999

## CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated April 24, 1998 (except for Note 14, as to which the date is June 25, 1998), with respect to the consolidated financial statements of THORN Americas, Inc. and subsidiaries included in the Registration Statement (Form S-4) and related Prospectus of Renters Choice, Inc. for the registration of \$175,000,000, 11% Senior Subordinated Notes due 2008.

ERNST & YOUNG LLP

Wichita, Kansas

January 19, 1999



## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report dated March 19, 1998 included in this Amendment No. 3 to Form S-4 Registration Statement of Rent-A-Center, Inc., ColorTyme, Inc. and Advantage Companies, Inc. and to all references to our Firm included in this registration statement No. 333-65787.

ARTHUR ANDERSEN LLP

Los Angeles, California

January 19, 1999