

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1996

Commission File Number 0-25370

RENTERS CHOICE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of  
incorporation or organization)

48-1024367

(I.R.S. Employer  
Identification No.)

13800 Montfort, Suite 300  
Dallas, Texas 75240  
(972) 701-0489

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

NONE

(Former name, former address and former  
fiscal year, if changed since last report)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 7, 1996:

CLASS	OUTSTANDING
Common stock, \$.01 par value per share	24,823,835

RENTERS CHOICE, INC. AND SUBSIDIARY

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	PAGE NO.
ITEM 1. Consolidated Financial Statements	
Balance Sheets as of September 30, 1996 and December 31, 1995	1
Statements of Earnings for the nine months ended September 30, 1996 and 1995	2
Statements of Earnings for the three months ended September 30, 1996 and 1995	3
Statements of Cash Flows for the nine months ended September 30, 1996 and 1995	4
Notes to Financial Statements	5
Management's Discussion and Analysis of Financial Condition and Results of Operations	8
PART II. OTHER INFORMATION	
ITEM 1. Legal Proceedings	12
ITEM 6. Exhibits and Reports on Form 8-K	14
SIGNATURES	17
Exhibit 3.2	21
Exhibit 10.1	23
Exhibit 11.1	29
Exhibit 27	30

RENTERS CHOICE, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

	September 30, 1996	December 31, 1995
	----- Unaudited	-----
<b>ASSETS</b>		
Cash and cash equivalents .....	\$ 9,679,027	\$ 35,321,338
Rental merchandise, net		
On rent .....	59,997,718	49,700,354
Held for rent .....	16,819,203	14,539,645
Accounts receivable, net .....	2,105,304	--
Income taxes receivable .....	216,346	1,440,223
Prepaid expenses and other assets .....	1,742,244	2,391,220
Property assets, net .....	11,175,872	7,375,667
Deferred income taxes .....	10,626,581	6,976,576
Intangible assets, net .....	33,088,143	29,549,275
	-----	-----
	\$ 145,450,438	\$ 147,294,298
<b>LIABILITIES</b>		
Accounts payable - trade .....	\$ 6,546,706	\$ 3,288,069
Accrued liabilities .....	6,027,019	4,213,624
Income taxes payable .....	3,390,225	--
Taxes other than income .....	2,296,896	2,458,984
Deferred income taxes .....	350,000	--
Other debt .....	6,273,822	40,849,605
Reserve for loans sold with recourse .....	1,016,605	--
	-----	-----
	25,901,273	50,810,282
<b>COMMITMENTS AND CONTINGENCIES</b> .....		
	--	--
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$.01 par value; 5,000,000 shares authorized; none issued .....	--	--
Common stock, \$.01 par value; 50,000,000 shares authorized; 24,819,395 and 24,378,108 shares issued and outstanding in 1996 and 1995, respectively .....	248,193	243,781
Additional paid-in capital .....	98,039,912	87,919,305
Unamortized value of stock award .....	(672,890)	(897,890)
Retained earnings .....	21,933,950	9,218,820
	-----	-----
	119,549,165	96,484,016
	-----	-----
	\$ 145,450,438	\$ 147,294,298

The accompanying notes are an integral part of these statements.

RENTERS CHOICE, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF EARNINGS

	NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995
	----- Unaudited -----	
STORE REVENUE		
Rentals and fees .....	\$ 142,357,856	\$82,529,529
Merchandise sales .....	8,030,325	3,651,453
Other		
	533,924	450,459
FRANCHISE REVENUE		
Franchise merchandise sales .....	14,027,289	--
Royalty income and fees .....	1,833,148	--
	-----	-----
TOTAL REVENUE .....	166,782,542	86,631,441
OPERATING EXPENSES		
Direct store expenses		
Depreciation of rental merchandise .....	31,024,771	19,099,556
Cost of merchandise sold .....	6,266,708	2,572,274
Salaries and other expenses .....	83,753,192	44,389,993
Franchise operation expenses		
Cost of franchise merchandise sales .....	13,376,058	--
	-----	-----
	134,420,729	66,061,823
General and administrative expenses .....	6,957,136	4,243,874
Amortization of intangibles .....	3,546,037	2,109,382
	-----	-----
TOTAL OPERATING EXPENSES .....	144,923,902	72,415,079
	-----	-----
OPERATING PROFIT .....	21,858,640	14,216,362
INTEREST EXPENSE(INCOME), NET .....	(82,717)	944,490
	-----	-----
EARNINGS BEFORE INCOME TAXES .....	21,941,357	13,271,872
INCOME TAX EXPENSE .....	9,226,227	5,736,268
	-----	-----
NET EARNINGS .....	\$ 12,715,130	\$ 7,535,604
	=====	=====
Weighted average shares outstanding .....	25,048,765	19,907,787
	=====	=====
EARNINGS PER SHARE .....	\$ 0.51	\$ 0.38
	=====	=====

The accompanying notes are an integral part of these statements.

RENTERS CHOICE, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF EARNINGS

	THREE MONTHS ENDED SEPTEMBER 30,	
	1996	1995
	----- Unaudited -----	
STORE REVENUE		
Rentals and fees .....	\$ 48,929,122	\$35,096,938
Merchandise sales .....	2,266,387	1,380,293
Other .....	172,317	
		182,067
FRANCHISE REVENUE		
Franchise merchandise sales .....	7,528,885	--
Royalty income and fees .....	1,127,869	--
	-----	-----
TOTAL REVENUE .....	60,024,580	36,659,298
OPERATING EXPENSES		
Direct store expenses		
Depreciation of rental merchandise ....	10,462,160	8,100,795
Cost of merchandise sold .....	1,882,824	1,101,321
Salaries and other expenses .....	29,057,753	19,648,195
Franchise operation expenses		
Cost of franchise merchandise sales ...	7,174,113	--
	-----	-----
	48,576,850	28,850,311
General and administrative expenses .....	2,232,054	1,594,759
Amortization of intangibles .....	1,258,937	785,357
	-----	-----
TOTAL OPERATING EXPENSES .....	52,067,841	31,230,427
OPERATING PROFIT .....	7,956,739	5,428,871
INTEREST (INCOME) EXPENSE, NET .....	(105,531)	497,069
	-----	-----
EARNINGS BEFORE INCOME TAXES .....	8,062,270	4,931,802
INCOME TAX EXPENSE .....	3,333,025	2,010,348
	-----	-----
NET EARNINGS .....	\$ 4,729,245	\$ 2,921,454
	=====	=====
Weighted average shares outstanding .....	25,203,721	21,039,187
	=====	=====
EARNINGS PER SHARE .....	\$ 0.19	\$ 0.14
	=====	=====

The accompanying notes are an integral part of these statements.

RENTERS CHOICE, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995
	----- Unaudited -----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings .....	\$ 12,715,130	\$ 7,535,604
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation of rental merchandise .....	31,024,771	19,099,556
Depreciation of property assets .....	2,548,495	1,178,323
Amortization of intangibles .....	3,546,037	2,109,382
Other .....	225,000	(123,052)
Changes in operating assets and liabilities		
Rental merchandise .....	(41,157,165)	(22,996,982)
Accounts receivable .....	312,810	
Income taxes receivable .....	2,194,487	--
Prepaid expenses and other assets .....	1,056,243	(422,607)
Accounts payable - trade .....	243,539	169,371
Accrued liabilities .....	(1,344,196)	151,777
Income taxes payable .....	2,465,701	(122,057)
Taxes other than income .....	(162,088)	617,781
Reserve for loans held with recourse .....	(123,614)	--
	-----	-----
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b> .....	<b>13,545,150</b>	<b>7,197,096</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property assets .....	(5,897,975)	(2,466,463)
Proceeds from sale of property assets .....	216,058	377,155
Acquisitions of businesses, net of cash acquired of \$2,132,930 in 1996 .....	(7,935,643)	(21,351,873)
	-----	-----
<b>NET CASH USED IN INVESTING ACTIVITIES</b> .....	<b>(13,617,560)</b>	<b>(23,441,181)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from public offerings .....	--	23,396,209
Proceeds from exercise of options .....	590,937	10,000
Distributions to stockholders .....	--	(1,493,340)
Proceeds from debt .....	531,844	20,259,780
Repayments of debt .....	(48,030,976)	(21,024,743)
Repayments of note to stockholder .....	--	(6,250,000)
Repayment of notes receivable .....	21,338,294	--
	-----	-----
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b> .....	<b>(25,569,901)</b>	<b>14,897,906</b>
<b>NET DECREASE IN CASH AND CASH     EQUIVALENTS</b> .....	<b>(25,642,311)</b>	<b>(1,346,179)</b>
Cash and cash equivalents at beginning of period .....	35,321,338	1,441,001
	-----	-----
Cash and cash equivalents at end of period .....	<b>\$ 9,679,027</b>	<b>\$ 94,822</b>
	=====	=====

The accompanying notes are an integral part of these statements.

RENTERS CHOICE, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The interim financial statements of Renters Choice, Inc. and Subsidiary (the "Company") included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995. In the opinion of management, the accompanying unaudited interim financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary to present fairly the Company's results of operations and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.
  
2. On May 15, 1996 the Company acquired all the outstanding common stock of ColorTyme, Inc. ("ColorTyme") pursuant to a merger (the "Merger") of a wholly owned subsidiary of the Company with ColorTyme. The total Merger consideration consisted of cash of \$4,665,751 paid to shareholders and 343,175 shares of the Company's common stock, valued at \$19.04 per share. The acquisition was accounted for as a purchase, and accordingly, the operating results of ColorTyme have been included in the operating results of the Company since May 1, 1996. Goodwill is amortized over twenty years, and identifiable intangible assets are amortized over periods from eighteen months to ten years. The assets purchased, liabilities assumed and equity consideration were recorded by the Company as follows:

<b>ASSETS ACQUIRED</b>	
Rental merchandise	\$ 748,717
Accounts receivable	23,756,408
Income taxes receivable	970,610
Deferred income taxes	3,650,000
Prepaid expenses and other assets	375,128
Intangible assets	3,654,341
Property assets	446,784
	-----
	\$ 33,601,988
	=====
<b>LIABILITIES ASSUMED</b>	
Accounts payable - trade	\$ 3,015,098
Accrued liabilities	3,157,591
Income taxes payable	924,524
Deferred income taxes	350,000
Other debt	12,688,583
Reserve for loans sold with recourse	1,140,219
	-----
	21,276,015
<b>EQUITY CONSIDERATION</b>	
Common stock	3,462
Additional paid-in capital	9,530,620
	9,534,082
	-----
	\$ 30,810,097
	=====

RENTERS CHOICE, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

2. Continued.

CASH PURCHASE PRICE \$ 2,791,891  
 =====

Immediately following the purchase of ColorTyme by the Company, ColorTyme sold its franchise loan portfolio (with certain recourse provisions) to a third party for an aggregate purchase price of approximately \$21.7 million. At September 30, 1996, ColorTyme's provision for future possible losses related to the sale of the loan portfolio is \$1,016,605. ColorTyme simultaneously paid off related notes payable owed to Chrysler First Commercial Corporation for \$13.2 million. No gain or loss was recognized on the sale.

The following summary, prepared on a pro forma basis, combines the results of operations as if ColorTyme, Crown Leasing Corporation and certain of its affiliates, and Pro Rental, Inc. had been acquired as of the beginning of each of the nine month and three month periods ending September 30, 1996 and 1995, after including the impact of purchase accounting adjustments and the additional shares issued as consideration.

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
Revenue .....	\$180,976,695	\$163,790,900	\$60,024,580	\$55,571,704
Net earnings .....	\$ 13,074,725	\$ 6,279,032	\$ 4,729,245	\$ 2,126,458
Earnings per common share .....	\$ 0.52	\$ 0.31	\$ 0.19	\$ 0.10

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.

The Company acquired the assets of an additional seventeen stores in eight transactions during the nine months ended September 30, 1996 for approximately \$5.1 million. The transactions were accounted for using the purchase method of accounting.

The assets acquired were recorded by the Company as follows:

ASSETS ACQUIRED	
Rental merchandise	\$ 1,695,811
Prepaid expenses and other assets	9,277
Intangible assets	3,453,429
Property assets	220,000
	-----
	5,378,517
Other Debt	234,765
CASH PURCHASE PRICE	\$ 5,143,752 =====

3. The Company has a credit agreement with its current lender for \$40 million. This agreement consists of a \$10 million revolving credit facility and a \$30 million term loan facility. Borrowings under the term loan facility bear interest at a rate equal to the National prime rate as published in the WALL STREET JOURNAL (8-1/4% per annum at September 30, 1996) and borrowings under the revolving credit facility bear interest at such designated prime rate, in each case as adjusted monthly. All borrowings are secured by a lien on substantially all of the Company's assets. Borrowings under the revolving credit facility are due on April 30, 1997. Any term loan borrowings will be funded in individual notes amortized over five-year periods payable in equal monthly installments (including interest). The commitment on the term facility expires April 30, 1997, and bears no commitment fee. The credit agreement includes certain cash flow and net worth requirements, as well as covenants which limit the ability of the Company to incur additional indebtedness, grant liens, transfer assets out of the ordinary course of business or engage in merger transactions. At September 30, 1996, there were no outstanding borrowings under either of these facilities.

On September 30, 1996, the Company executed a commitment letter with a syndicate of banks led by Comerica Bank to provide financing in the aggregate principal amount of \$90 million. The commitment is subject to certain terms and conditions set forth in the letter. The terms and conditions of the financing are being negotiated, and the agreement is expected to be executed before year-end.



RENTERS CHOICE, INC. AND SUBSIDIARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

This report contains forward-looking statements that involve risks and uncertainties. The actual future results of the Company could differ materially from those statements. Factors that could cause or contribute to such differences include, but are not limited to, uncertainties regarding the ability to acquire additional rent-to-own stores on favorable terms, to enhance their performance and to integrate the acquired stores into the Company's operations.

In April 1995, the Company acquired 72 stores located in 18 states from Crown Leasing Corporation and certain of its affiliates (the "Crown Acquisition") and two other stores in a separate transaction. In August 1995, the Company acquired 135 stores located in 10 states by purchasing the issued and outstanding stock of Pro Rental, Inc., the parent company of a chain of rent-to-own stores doing business as Magic Rent-to-Own and Kelway Rent-to-Own (the "Magic Acquisition" and, together with the Crown Acquisition, the "1995 Acquisitions"). In May 1996, the Company acquired all the issued and outstanding stock of ColorTyme, Inc. ("ColorTyme"), a franchisor of 313 rent-to-own stores, pursuant to the Merger. Prior to the Merger, ColorTyme operated six company owned stores, all of which were purchased by the Company subsequent to the Merger. The Company acquired an additional seventeen stores in seven separate transactions in the first half of 1996 (together with the ColorTyme Acquisition, the "1996 Acquisitions") and fifty stores in seven separate transactions through November 7, 1996. The 1995 and 1996 Acquisitions were accounted for as purchases and, accordingly, the operating results of the acquired stores and franchisor have been included in the operating results of the Company since the respective dates of acquisition. Primarily as a result of the impact of the 1995 and 1996 Acquisitions on the results of operations, comparisons of the operating results for the three month and nine month periods ended September 30, 1996 and 1995 may not be meaningful or indicative of future results.

COMPARISON OF NINE MONTHS ENDED SEPTEMBER 30, 1996 AND 1995

Total revenue increased by \$80.2 million, or 92.6%, to \$166.8 million for 1996 from \$86.6 million for 1995. The increase in total revenue was primarily attributable to the inclusion of the 209 stores purchased in 1995, and the 1996 Acquisitions. Total revenue exclusive of the 1995 and the 1996 Acquisitions increased by \$5.2 million, or 7.9% to \$71.4 million for 1996 from \$66.2 million in 1995. This improvement was primarily attributable to an increase in revenue earned per item on rent.

Depreciation of rental merchandise increased by \$11.9 million, or 62.3%, to \$31.0 million for 1996 from \$19.1 million for 1995. Depreciation of rental merchandise expressed as a percent of rental revenue decreased from 23.1% in 1995 to 21.8% in 1996. The decrease was primarily attributable to higher rental rates on rental merchandise.

Salaries and other expenses expressed as a percentage of total store revenue increased to 55.5% for 1996 from 51.2% for 1995. This increase is attributable to increase in salaries for employees of acquired stores immediately following the acquisitions while store revenues have increased gradually. Additionally, the Company increased its advertising efforts during the first nine months of 1996 in the markets related to the 1995 and 1996 Acquisitions. Occupancy costs also increased as a percent of total revenue primarily because of the relocation of certain stores acquired in the 1995 acquisitions to stores that are larger in square footage. Revenues from these larger stores increase gradually while the additional occupancy costs are incurred immediately. The average relocated store is approximately 4,000 square feet. General and administrative expenses expressed as a percent of total revenue decreased to 4.2% for 1996 from 4.9% for 1995. The decrease is primarily attributable to increased economies of scale resulting from the 1995 and 1996 Acquisitions.

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

Operating profit increased by \$7.7 million, or 54.2%, to \$21.9 million for 1996 from \$14.2 million for 1995. This improvement was primarily attributable to an increase in revenue earned per item on rent, in stores acquired in the 1995 and 1996 Acquisitions. Net earnings increased by \$5.2 million, or 69.3%, to \$12.7 million in 1996 from \$7.5 million in 1995. The improvement was a result of the increase in operating profit described above.

## COMPARISON OF THREE MONTHS SEPTEMBER 30, 1996 AND 1995

Total revenue increased by \$23.3 million, or 63.5%, to \$60.0 million for 1996 from \$36.7 million for 1995. The increase in total revenue was primarily attributable to the inclusion of the 209 stores purchased in 1995, and the 1996 Acquisitions. Total revenue exclusive of the Magic Acquisition, and the 1996 Acquisitions increased by \$2.3 million or 7.4% to \$33.5 million for 1996 from \$31.2 million in 1995. Same store revenue for the quarter ended September 30, 1996 increased \$1,763,000 or 5.7%, over the comparable quarter. Notwithstanding same store revenue growth for the quarter ended September 30, 1996, the Company's existing operations were adversely affected by inclement weather due to tropical storms in September on both the East Coast and in Puerto Rico. Additionally, during 1996 the Company relocated managers and regional managers from stores acquired prior to 1995 to stores acquired in 1995. As a result, same store revenue during the quarter ended September 30, 1996 for stores acquired prior to 1995 increased 1%, while same store revenue for the April 1995 (72 store) acquisition increased 18%.

Depreciation of rental merchandise increased by \$2.4 million, or 29.6%, to \$10.5 million for 1996 from \$8.1 million for 1995. Depreciation of rental merchandise expressed as a percent of rental revenue decreased to 21.4% in 1996 from 23.1% in 1995. The decrease was primarily attributable to higher rental rates on rental merchandise.

Salaries and other expenses expressed as a percentage of total store revenue increased to 56.6% for 1996 from 53.6% for the comparative 1995 quarter. This increase is attributable to increase in salaries for employees of acquired stores immediately following the acquisitions while store revenues have increased gradually. Additionally, the Company increased its advertising efforts during the quarter ended September 30, 1996 in the markets related to the 1995 and 1996 Acquisitions. Occupancy costs also increased as a percent of total revenue primarily because of the relocation of certain stores acquired in the 1995 acquisitions to stores that are larger in square footage. Revenues from these larger stores increase gradually while the additional costs are incurred immediately. The average relocated store is approximately 4,000 square feet. General and administrative expenses expressed as a percent of total revenue decreased to 3.7% for 1996 from 4.4% for 1995. The decrease is primarily attributable to increased economies of scale resulting from the 1995 and 1996 Acquisitions.

Operating profit increased by \$2.6 million, or 48.1%, to \$8.0 million for 1996 from \$5.4 million for 1995. 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 1995 Acquisitions.

Net earnings increased by \$1.8 million, or 62.0%, to \$4.7 million in 1996 from \$2.9 million in 1995. The improvement was a result of the increase in operating profit described above.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's primary requirements for capital are the acquisition of existing stores, the opening of new stores, the purchase of additional rental merchandise and the replacement of rental merchandise which has been sold or charged-off or is no longer suitable for rent. During the year ended December 31, 1995, the Company

RENTERS CHOICE, INC. AND SUBSIDIARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS - Continued

acquired 209 stores for an aggregate purchase price of \$59 million, of which \$21.7 million was paid in cash. During the nine months ended September 30, 1996, the Company acquired an additional seventeen stores and ColorTyme for a net cash purchase price of \$7.9 million. The Company purchased \$50.2 million and \$24.7 million of rental merchandise during the nine month periods ended September 30, 1996 and 1995, respectively.

For the nine months ended September 30, 1996, cash provided by operating activities increased by \$6.3 million to \$13.5 million in 1996 from \$7.2 million in 1995, primarily due to increased earnings, timing of the payment of various operating expenses offset by increased rental merchandise purchases. Cash used in investing activities decreased by \$9.8 million to \$13.6 million in 1996 from \$23.4 in 1995, primarily relating to the 1995 Acquisitions. Cash used in financing activities was \$25.6 million for the nine months ended September 30, 1996, which relates primarily to repayment of debt to the Magic selling shareholders which was paid in full on January 2, 1996, offset by the net proceeds of the sale of the ColorTyme franchise loan portfolio. Cash provided by financing activities was \$14.9 million for the nine months ended September 30, 1995, which relates primarily to the proceeds from the initial public offering in January 1995 offset by repayment of the note to a stockholder.

The Company increased its credit agreement with its current lender from \$25 million to \$40 million in the first quarter of 1996. This agreement consists of a \$10 million revolving credit facility and a \$30 million term loan facility. Borrowings under the term loan facility bear interest at a rate equal to the National prime rate as published in the WALL STREET JOURNAL (8 1/4% per annum at September 30, 1996) and borrowings under the revolving credit facility bear interest at such designated prime rate, in each case as adjusted monthly. All borrowings are secured by a lien on substantially all of the Company's assets. Borrowings under the revolving credit facility are due on April 30, 1997. Any term loan borrowings will be funded in individual notes amortized over five-year periods payable in equal monthly installments (including interest). The commitment on the term facility expires April 30, 1997, and bears no commitment fee. The credit agreement includes certain cash flow and net worth requirements, as well as covenants which limit the ability of the Company to incur additional indebtedness, grant liens, transfer assets out of the ordinary course of business or engage in merger transactions. On September 30, 1996, there were no outstanding borrowings under either of these facilities.

In connection with the stores acquired in 1993, monthly payments of \$33,333 are due under a consulting agreement through April 1, 2001, and monthly payments of \$125,000 are due under a non-competition agreement from February 1996 through January 1998. If the settlement agreement described under the caption "Part II. Item 1. Legal Proceedings - IN RE: DEF INVESTMENTS, INC." is executed, the Company will be released from its obligation to make payments under such consulting and non-competition agreements, in exchange for a cash payment of \$4.75 million (the "Settlement Amount"). Although management cannot at this time estimate when it will be required to pay the Settlement Amount, if ever, management believes that the Company's borrowing capacity under its credit facility and cash flow from operations will be sufficient to fund the payment.

In connection with the Crown Acquisition, monthly payments of \$16,667 were due under a consulting agreement through October 1996, and in connection with the Magic Acquisition, monthly payments in the aggregate amount of \$32,500 are due under certain noncompetition agreements through August 2000.

The Company intends to increase the number of stores it operates through acquisitions and new store openings. In particular, the Company's goal is to increase the number of stores it operates by approximately 50-60 stores in each of the next few years. The Company currently expects to open six to ten new stores during the last quarter of 1996. The Company estimates that the average investment with respect to new stores is approximately \$350,000 per store, of which rental merchandise comprises approximately 75% to 80% of the investment. The

10

RENTERS CHOICE, INC. AND SUBSIDIARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS - Continued

remaining investment consists of leasehold improvements, delivery trucks, store signs, computer equipment and start-up costs. There can be no assurance that the Company will open any new stores in the future, or as to the number, location or profitability thereof. Additionally, management believes that there are currently a number of possible future acquisition opportunities in the rent-to-own industry, and it is possible that any acquisition could be material to the Company. There can be no assurance that the Company will be able to acquire any additional stores, or that any stores that are acquired will be or will become profitable.

Management believes that cash flow from operations and the previously described credit facilities will be adequate to fund the operations and expansion plans of the Company during 1996. In addition, to provide any additional funds necessary for the continued pursuit of the Company's growth strategies, the Company may incur, from time to time, additional short-term and long-term bank indebtedness and may issue, in public or private transactions, its 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 the Company, and some of which will be beyond the Company's control such as prevailing interest rates and general economic conditions. There can be no assurance that such additional financing will be available, or if available, will be on terms acceptable to the



PART II. OTHER INFORMATION  
RENTERS CHOICE, INC. AND SUBSIDIARY

ITEM 1. LEGAL PROCEEDINGS.

From time to time the Company is a party to various legal proceedings arising in the ordinary course of its business. Except as described below, the Company is not currently a party to any material litigation.

IN RE: DEF INVESTMENTS, INC.

On September 5, 1995, a complaint (the "Complaint") was filed in the United States Bankruptcy Court for the District of Minnesota (the "Bankruptcy Court") against Mr. and Mrs. Robert A. Hardesty (the "Hardestys") and the Company, among others (collectively, the "Defendants"). The complaint was filed by the trustee (the "Trustee") for DEF Investments, Inc. ("DEF"), in an involuntary chapter 7 bankruptcy case against DEF (the "DEF Bankruptcy Case") commenced on April 20, 1995 by the plaintiffs in a pending class action suit against DEF and other companies including, at this point, the Company (the "Miller lawsuit").

The Complaint seeks (i) to avoid the transfer of certain assets purchased in 1993 by a predecessor of the Company from DEF and certain of its subsidiaries and to obtain an order that such assets be turned over to the Trustee, (ii) to nullify the Hardestys' consulting and noncompetition agreements, pursuant to the terms of which the Company paid \$2.0 million to the Hardestys on the closing date of the 1993 acquisition, has paid them an additional \$900,000 since the closing date and is obligated to pay them approximately \$5.3 million in varying amounts through April 1, 2001, (iii) to require the Company to make all future payments under the consulting and noncompetition agreements to the Trustee for the benefit of the DEF bankruptcy estate, and (iv) to set aside all payments already made by the Company to the Hardestys under the consulting and noncompetition agreements, and to grant judgment against the Hardestys for the amount of all such payments.

On March 8, 1996, the Company reached an agreement with the Trustee and the Hardestys to settle the bankruptcy lawsuit (the "Bankruptcy Settlement"). The terms of the Bankruptcy Settlement provide that the Company will be released from the fraudulent transfer claim and the future obligation to pay \$5.3 million under the consulting and noncompetition agreements with the Hardestys in exchange for a cash payment of \$4.75 million to the Trustee. The Bankruptcy Settlement, which, as of November 7, 1996, has not yet been reduced to writing and is subject to approval by the Bankruptcy Court after notice and hearing, contemplates the nonrefundable payment by the Company of \$50,000 upon execution of the written settlement agreement in exchange for the Trustee's dismissal of the Complaint against the Company without prejudice. As to the balance of the settlement amount, \$300,000 is attributable to the Trustee's claims against the Company based upon payments already made to the Hardestys, and \$4.4 million is attributable to future obligations under the noncompetition and consulting agreements.

As a part of the overall Bankruptcy Settlement, the Company will receive a full release from the fraudulent transfer claim by the Trustee on behalf of DEF, all of its subsidiaries which have filed Chapter 7 bankruptcy cases and their respective creditors. The Bankruptcy Settlement is also conditioned on the Bankruptcy Court issuing protective orders enjoining the Hardestys from making any claims against the Company or J. E. Talley and certain of their affiliates under the noncompetition and consulting agreements.

The Miller lawsuit will not be dismissed entirely under the Bankruptcy Settlement. While the claims against the Hardestys will be dismissed, the claims against the Company will not be. Nevertheless, the plaintiffs agreed to first pursue collection of any judgment obtained against the Company through enforcement of the indemnity agreement between the Company and Transamerica Commercial Finance Corporation, Inc. ("Transamerica"). The plaintiff class further agreed that it cannot collect or enforce any judgment obtained against the Company in the Miller lawsuit until it has exhausted collection through the indemnity agreement. In September 1996, Transamerica and the plaintiff class reached an agreement to settle all claims against the Company in the Miller lawsuit. The terms of the settlement between the plaintiff and Transamerica are subject to approval of the Bankruptcy Court and the state court after notice and hearing.

Finally, the Bankruptcy Settlement calls for the plaintiff class to release and covenant not to assert any claims it may have against the Company except those contained in its current pleading in the Miller lawsuit.

Management believes that the execution of the Bankruptcy Settlement, in the form in which it is currently proposed, will not have a material adverse effect on the Company's results of operations. Management cannot predict when the Bankruptcy Settlement will be executed and approved by the Bankruptcy Court, and there can be no assurance that the Bankruptcy Settlement will be entered into at all. If the Bankruptcy Settlement is not executed, the Trustee would be able to proceed against the Company in the fraudulent transfer claim.

HINTON ET AL. V. COLORTYME, INC.

In May 1994, certain Wisconsin residents filed suit against ColorTyme alleging that ColorTyme had entered into contracts with them which were violative of the Wisconsin Consumer Act (the "Wisconsin Act"). Specifically, the plaintiffs allege that the ColorTyme contracts were consumer credit transactions under the Wisconsin Act, and that ColorTyme failed to provide required disclosures and violated the Wisconsin Act's collection practice restrictions. Plaintiffs are seeking damages in excess of \$2.0 million.

In light of the Merger and the Company's later purchase of the assets of four Milwaukee ColorTyme stores, the plaintiffs were granted leave to add the Company as a defendant along with additional related substantive claims. Currently, the parties have filed cross motions in an attempt to define the class. In those motions, it has become clear that the plaintiffs have included the Company as a defendant in this lawsuit to the extent that the Company assumed the obligations of certain existing ColorTyme contracts through the asset purchase regarding the Milwaukee stores. Nevertheless, there is still a possibility that the plaintiffs may attempt to pursue the Company solely due to its parent subsidiary relationship with ColorTyme.

The Company and ColorTyme have recently moved to dismiss the non-Wisconsin Act claims in the lawsuit. Discovery continues and no trial date has been set.

Although management cannot predict the outcome of the case, management does not expect the ultimate resolution of the case to have a material adverse effect on the Company's consolidated results of operations.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

CURRENT REPORTS ON FORM 8-K

Current Report on Form 8-K dated May 15, 1996, filed May 30, 1996.  
Current Report on Form 8-K/A dated May 15, 1996, filed July 26, 1996.  
Current Report on Form 8-K/A dated May 15, 1996, filed October 2, 1996.

LISTING OF EXHIBITS

Exhibits followed by an (\*) constitute management contracts or compensatory plans or arrangements.

EXHIBIT NUMBER	DESCRIPTION
2.1(1)	- Asset Purchase Agreement dated April 20, 1995 among Renters Choice, Inc., Crown Leasing Corporation, Robert White, individually and Robert White Company, a sole proprietorship owned by Robert White
2.2(2)	- Stock Purchase Agreement dated as of August 27, 1995 among Renters Choice, Inc., Starla J. Flake, Rance D. Richter, Bruce S. Johnson and Pro Rental, Inc.
2.3(3)	- Stock Purchase Agreement dated September 29, 1995 between the Company and Terry N. Worrell
2.4(4)	- Partnership Interest Purchase Agreement dated September 29, 1995 among the Company, Worrell Investors, Inc., The Christy Ann Worrell Trust and The Michael Neal Worrell Trust
2.5(5)	- Agreement and Plan of Merger by and among Renters Choice, Inc., Pro Rental, Inc., MRTO Holdings, Inc. and Pro Rental II, Inc.
2.6(6)	- Agreement and Plan of Reorganization dated May 15, 1996, among Renters Choice, Inc., ColorTyme, Inc., and CT Acquisition Corporation.
3.1(7)	- Amended and Restated Certificate of Incorporation of the Company
3.2	- Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company
3.3(8)	- Amended and Restated Bylaws of the Company
4.1(9)	- Form of Certificate evidencing Common Stock
10.1*	- Amended and Restated 1994 Renters Choice, Inc. Long-Term Incentive Plan
10.2(10)	- Amended and Restated Loan Agreement dated as of April 13, 1995 between INTRUST Bank, N.A. and Renters Choice, Inc.
10.3(11)	- Consulting Agreement dated April 1, 1993, by and between Bob A. Hardesty and Brenda K. Hardesty and Renters Choice, L.P.
10.4(12)	- Non-Competition Agreement dated April 1, 1993, by and between Bob A. Hardesty and Brenda K. Hardesty and Renters Choice, L.P.
10.5(13)	- Noncompetition Agreement dated as of April 20, 1995 between Renters Choice, Inc. and Patrick S. White
10.6(14)	- Consulting Agreement dated as of April 20, 1995 between Renters Choice, Inc. and Jeffrey W. Smith
10.7(15)	- Noncompetition Agreement dated as of August 27, 1995 between Renters Choice,

Inc. and Starla J. Flake

- 10.8(16) - Noncompetition Agreement dated as of August 27, 1995 between Renters Choice, Inc. and Bruce S. Johnson
- 10.9(17) - Noncompetition Agreement dated as of August 27, 1995 between Renters Choice, Inc. and Rance D. Richter
- 10.10(18) - Option Agreement dated August 27, 1995 between the Company and Terry N. Worrell
- 10.11(19) - Option Agreement dated August 27, 1995 among the Company, Worrell Investors, Inc., The Christy Ann Worrell Trust and The Michael Neal Worrell Trust
- 10.12(20) - First Amendment to Amended and Restated Loan Agreement dated October 1995 by and between Intrust Bank, N.A. and Renters Choice, Inc.
- 10.13(21) - Second Amendment to Amended and Restated Loan Agreement dated April 30, 1996 by and between Intrust, N.A. and Renters Choice, Inc.
- 10.14(22)\* - Employment Agreement dated September 11, 1995 by and between Renters Choice, Inc. and David D. Real
- 10.15(23) - Portfolio Acquisition Agreement dated May 15, 1996, by and among Renters Choice, Inc., ColorTyme Financial Services, Inc., and STI Credit Corporation.
- 11.1 - Computation of Earnings per share
- 27 - Financial Data Schedule

- (1) Incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K dated May 4, 1995
- (2) Incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K dated August 27, 1995
- (3) Incorporated herein by reference to Exhibit 10.19 to the registrant's Registration Statement on Form S-1 (File No. 33-97012)
- (4) Incorporated herein by reference to Exhibit 10.20 to the registrant's Registration Statement on Form S-1 (File No. 33-97012)
- (5) Incorporated herein by reference to Exhibit 2.7 to the registrant's Annual Report on Form 10K for the year ended December 31, 1995.
- (6) Incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K dated May 15, 1996.
- (7) 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.
- (8) Incorporated herein by reference to Exhibit 3.4 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1994.
- (9) Incorporated herein by reference to Exhibit 4.1 to the registrant's Registration Statement on Form S-1 (File No. 33-86504)
- (10) Incorporated herein by reference to Exhibit 10.2 to the registrant's Registration Statement on Form S-1 (File No. 33-97012)
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- (14) Incorporated herein by reference to Exhibit 10.8 to the registrant's Registration Statement on Form S-1 (File No. 33-97012)
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- (19) Incorporated herein by reference to Exhibit 2.3 to the registrant's Current Report on Form 8-K dated August 27, 1995
- (20) Incorporated herein by reference to Exhibit 10.25 to the registrant's Registration Statement on Form S-1 (File No. 33-97012)
- (21) Incorporated herein by reference to Exhibit 10.20 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.
- (22) Incorporated herein by reference to Exhibit 10.26 to the registrant's Registration Statement on Form S-1 (File No. 33-97012)
- (23) Incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated May 15, 1996.

SIGNATURES

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

RENTERS CHOICE, INC. AND SUBSIDIARY

By: /s/ DAVID D. REAL

-----  
David D. Real  
SENIOR VICE PRESIDENT-FINANCE  
AND CHIEF FINANCIAL OFFICER

Date: November 8, 1996

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CERTIFICATE OF AMENDMENT  
TO THE  
AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
RENTERS CHOICE, INC.  
(the "Corporation")

Pursuant to the provisions of Section 242 of the Delaware General Corporation Law, the undersigned Corporation files the following Certificate of Amendment to its Amended and Restated Certificate of Incorporation, which amends Article FOURTH thereof so as to change the authorized capital stock of the Corporation.

ARTICLE I

The name of the Corporation is Renters Choice, Inc.

ARTICLE II

The following amendment to the Amended and Restated Certificate of Incorporation was adopted by the Board of Directors of the Corporation on March 18, 1996 and by the shareholders of the Corporation on May 20, 1996:

The first paragraph of Article Fourth of the Amended and Restated Certificate of Incorporation is hereby amended to read in its entirety as follows:

FOURTH: The aggregate number of shares of capital stock which the Corporation shall have authority to issue is 50,000,000 shares of common stock, having a par value of \$0.01 per share (the "Common Stock"), and 5,000,000 shares of preferred stock, having a par value of \$0.01 per share (the "Preferred Stock").

ARTICLE III

The number of shares of the Corporation outstanding and entitled to vote at the time of such adoption was 24,378,108 shares of Common Stock.

ARTICLE IV

The number of shares outstanding and entitled to vote which voted for the amendment was 21,235,814 while the number of shares outstanding and entitled to vote which voted against the amendment was 806,992. 2,335,302 shares abstained from voting on the amendment.

ARTICLE V

This amendment to the Amended and Restated Certificate of Incorporation has been duly adopted in accordance with the provisions of Section 242 of the Delaware General Corporation Law.

21

IN WITNESS WHEREOF, I have hereunto set my hand this the 23rd day of May, 1996.

RENTERS CHOICE, INC.

/s/ MARK E. SPEESE

-----  
Mark E. Speese, President

## AMENDED AND RESTATED

1994 RENTERS CHOICE, INC.

## LONG-TERM INCENTIVE PLAN

1. OBJECTIVES. The 1994 Renters Choice, Inc. Long-Term Incentive Plan (the "Plan") is designed to retain selected employees and non-employee directors of Renters Choice, Inc. (the "Company") and reward them for making significant contributions to the success of the Company and its Subsidiaries (as hereinafter defined). These objectives are to be accomplished by making awards under the Plan and thereby providing Participants (as hereinafter defined) with a proprietary interest in the growth and performance of the Company and its Subsidiaries.

2. DEFINITIONS. As used herein, the terms set forth below shall have the following respective meanings:

"Agreement" means a written agreement between the Company and a Participant that sets forth the terms, conditions and limitations applicable to an Employee Award or a Director Option.

"Board" means the Board of Directors of the Company.

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

"Committee" means such committee of the Board as is designated by the Board to administer the Plan. The Committee shall be constituted to permit the Plan to comply with Rule 16b-3.

"Common Stock" means the Common Stock, par value \$0.01 per share, of the Company.

"Director" means an individual serving as a member of the Board who is not an employee of the Company or any Subsidiary of the Company.

"Director Option" means a nonqualified stock option granted to a Director under the terms of this Plan.

"Employee Award" means the grant of any form of Employee Stock Option, stock appreciation right, stock award or cash award, whether granted singly, in combination or in tandem, to an employee of the Company or any Subsidiary pursuant to any applicable terms, conditions and limitations as the Committee may establish in order to fulfill the objectives of the Plan.

"Employee Stock Option" means an incentive stock option or a nonqualified stock option granted to an employee of the Company or any of its Subsidiaries under this Plan by the Committee.

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

"Fair Market Value" means, as of a particular date, (a) if the shares of Common Stock are listed on a national securities exchange, the mean between the highest and lowest sales price per share of Common Stock on the consolidated transaction reporting system for the principal such national securities exchange on that date, or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported, (b) if the shares of Common Stock are not so listed but are quoted on the Nasdaq National Market, the mean between the highest and lowest sales price per share of Common Stock on the Nasdaq National Market on that date, or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported or (c) if the Common Stock is not so listed or quoted, the mean between the closing bid and asked price on that date, or, if there are no quotations available for such date, on the last preceding date on which such quotations shall be available, as reported by the Nasdaq Stock Market, Inc., or, if not reported by the Nasdaq Stock Market, Inc., by the National Quotation Bureau, Inc.

"Participant" means an employee of the Company or any of its Subsidiaries to whom an Employee Award has been made under this Plan or a Director who has received a Director Option.

23

"Rule 16b-3" means Rule 16b-3 promulgated under the Exchange Act, or any successor rule.

"Subsidiary" means any corporation of which the Company directly or indirectly owns shares representing more than 50% of the voting power of all classes or series of capital stock of such corporation which have the right to vote generally on matters submitted to a vote of the stockholders of such corporation.

## 3. ELIGIBILITY.

EMPLOYEE AWARDS. All employees of the Company and its Subsidiaries are eligible for Employee Awards under this Plan. The Committee shall select the employees who shall become Participants in the Plan from time to time by the grant of Employee Awards under the Plan.

DIRECTOR OPTIONS. Recipients of Director Options shall include all persons who, as of the time Director Options are awarded, are serving as

4. COMMON STOCK AVAILABLE UNDER THE Plan. There shall be available for Employee Awards granted wholly or partly in Common Stock (including rights or options which may be exercised for or settled in Common Stock) and Director Options during the term of this Plan an aggregate of 2,000,000 shares of Common Stock, subject to adjustment as provided in Paragraph 14, 160,000 of which shall be set aside for issuance pursuant to Director Options and 100,000 of which shall be set aside for stock awards, as described in subparagraph 6(iii) hereof. The Board and the appropriate officers of the Company shall from time to time take whatever actions are necessary to file required documents with governmental authorities and stock exchanges and transaction reporting systems to make shares of Common Stock available for issuance pursuant to Employee Awards and Director Options. Common Stock related to Employee Awards and Director Options that are forfeited or terminated, expire unexercised, are settled in cash in lieu of Common Stock or in a manner such that all or some of the shares covered by an Employee Award or Director Option are not issued to a Participant, or are exchanged for Employee Awards that do not involve Common Stock, shall immediately become available for Employee Awards and Director Options hereunder. The Committee may from time to time adopt and observe such procedures concerning the counting of shares against the Plan maximum as it may deem appropriate under Rule 16b-3.

5. ADMINISTRATION. This Plan shall be administered by the Committee, which shall have full and exclusive power to interpret this Plan and to adopt such rules, regulations and guidelines for carrying out this Plan as it may deem necessary or proper, all of which powers shall be exercised in the best interests of the Company and in keeping with the objectives of this Plan. The Committee may, in its discretion, provide for the extension of the exercisability of an Employee Award, accelerate the vesting or exercisability of an Employee Award, eliminate or make less restrictive any restrictions contained in an Employee Award, waive any restriction or other provision of an Employee Award or otherwise amend or modify an Employee Award in any manner that is either (a) not adverse to the Participant holding such Employee Award or (b) consented to by such Participant. The Committee may correct any defect or supply any omission or reconcile any inconsistency in this Plan or in any Employee Award in the manner and to the extent the Committee deems necessary or desirable to carry it into effect. Any decision of the Committee in the interpretation and administration of this Plan shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. No member of the Committee or officer of the Company to whom it has delegated authority in accordance with the provisions of this Plan shall be liable for anything done or omitted to be done by him or her, by any member of the Committee or by any officer of the Company in connection with the performance of any duties under this Plan, except for his or her own willful misconduct or as expressly provided by statute. The Committee may delegate to the Chief Executive Officer of the Company and to other senior officers of the Company its duties under this Plan pursuant to such conditions or limitations as the Committee may establish, except that the Committee may not delegate to any person the authority to grant Employee Awards to, or take other action with respect to, Participants who are subject to Section 16 of the Exchange Act.

6. EMPLOYEE AWARDS. The Committee shall determine the type or types of Awards to be made to each Participant under this Plan. Each Employee Award made hereunder shall be embodied in an Agreement, which shall contain such terms, conditions and limitations as shall be determined by the Committee in its sole discretion and shall be signed by the Participant and by the Chief Executive Officer, the Chief Operating Officer or any Vice President of the Company for and on behalf of the Company. Employee Awards may consist of those listed in this Paragraph 6 and may be granted singly, in combination or in tandem. Employee Awards may also be made in combination or in tandem with, in replacement of, or as



alternatives to grants or rights (a) under this Plan or any other employee plan of the Company or any of its Subsidiaries, including the plan of any acquired entity, or (b) made to any Company or Subsidiary employee by the Company or any Subsidiary. An Employee Award may provide for the granting or issuance of additional, replacement or alternative Employee Awards upon the occurrence of specified events, including the exercise of the original Employee Award. Notwithstanding anything herein to the contrary, no Participant may be granted Employee Awards consisting of stock options or stock appreciation rights exercisable for more than 20% of the shares of Common Stock originally authorized for Employee Awards under this Plan, subject to adjustment as provided in Paragraph 14. In the event of an increase in the number of shares authorized under the Plan, the 20% limitation will apply to the number of shares authorized.

(i) EMPLOYEE STOCK OPTION. An Employee Award may consist of a right to purchase a specified number of shares of Common Stock at a price specified by the Committee in the Agreement or otherwise. A stock option may be in the form of an incentive stock option ("ISO") which, in addition to being subject to applicable terms, conditions and limitations established by the Committee, complies with Section 422 of the Code. Notwithstanding the foregoing, no ISO can be granted under the Plan more than ten years following the Effective Date of the Plan.

(ii) STOCK APPRECIATION RIGHT. An Employee Award may consist of a right to receive a payment, in cash or Common Stock, equal to the excess of the Fair Market Value or other specified valuation of a specified number of shares of Common Stock on the date the stock appreciation right ("SAR") is exercised over a specified strike price as set forth in the applicable Agreement.

(iii) STOCK AWARD. An Employee Award may consist of Common Stock or may be denominated in units of Common Stock. All or part of any stock Employee Award may be subject to conditions established by the Committee and set forth in the Agreement, which conditions may include, but are not limited to, continuous service with the Company and its Subsidiaries, achievement of specific business objectives, increases in specified indices, attaining specified growth rates and other comparable measurements of performance. Such Employee Awards may be based on Fair Market Value or other specified valuations. The certificates evidencing shares of Common Stock issued in connection with a stock Employee Award shall contain appropriate legends and restrictions describing the terms and conditions of the restrictions applicable thereto.

(iv) CASH AWARD. An Employee Award may be denominated in cash with the amount of the eventual payment subject to future service and such other restrictions and conditions as may be established by the Committee and set forth in the Agreement, including, but not limited to, continuous service with the Company and its Subsidiaries, achievement of specific business objectives, increases in specified indices, attaining specified growth rates and other comparable measurements of performance.

7. DIRECTOR STOCK OPTIONS. Director Options shall be granted to each eligible Director as of the date of consummation of the initial public offering of the Common Stock providing for the purchase of 9,000 shares of Common Stock. Commencing on January 1, 1996, automatic annual awards of Director Options shall be made to each eligible Director on the first business day of the Company's fiscal year, providing for the purchase of 3,000 shares of Common Stock; provided that such Director Options shall provide for the purchase of 9,000 shares of Common Stock if the recipient of such Director Option had not previously received a grant of a Director Option pursuant to this Plan. The purchase price of each share of Common Stock placed under a Director Option shall be equal to the Fair Market Value of such shares on the date the Director Option is granted; provided, that the purchase price of each share of Common Stock placed under a Director Option on the date of consummation of the initial public offering of the Common Stock shall be equal to the initial public offering price of the Common Stock. Director Options shall terminate and be of no force or effect with respect to any shares not previously purchased by the Director Optionee upon the expiration of ten years from the date of granting of each Director Option, notwithstanding any earlier termination of the Director Optionee's status as a Director of the Company. All Director Options shall be exercisable immediately on the date of grant. Notwithstanding the foregoing, no grant of Director Options shall be made unless the number of shares available under the Plan is sufficient to make all automatic grants of Director Options on the grant date. All Director Options shall be evidenced by a written Agreement conforming with the terms of this Plan.

8. PAYMENT OF EMPLOYEE AWARDS.

(a) GENERAL. Payment of Employee Awards may be made in the form of cash or Common Stock or combinations thereof and may include such restrictions as the Committee shall determine including, in the case of Common Stock, restrictions on transfer and forfeiture provisions. As used herein, "Restricted Stock" means Common Stock that is restricted or subject to forfeiture provisions.

(b) DEFERRAL. The Committee may, in its discretion, (i) permit selected Participants to elect to defer payments of some or all types of Employee Awards in accordance with procedures established by the Committee or (ii) provide for the deferral of an Employee Award in an Agreement or otherwise. Any such deferral may be in the form of installment payments or a future lump sum payment. Any deferred payment, whether elected by the Participant or specified by the Agreement or by the Committee, may be forfeited if and to the extent that the Agreement so provides.

(c) DIVIDENDS AND INTEREST. Dividends or dividend equivalent rights may be extended to and made part of any Employee Award denominated in Common Stock or units of Common Stock, subject to such terms, conditions and restrictions as the Committee may establish. The Committee may also establish rules and procedures for the crediting of interest on deferred cash payments and dividend equivalents for deferred payment denominated in Common Stock or units of Common Stock.

(d) SUBSTITUTION OF EMPLOYEE AWARDS. At the discretion of the Committee, a Participant may be offered an election to substitute an Employee Award for another Employee Award of the same or different type.

9. STOCK OPTION EXERCISE. The price at which shares of Common Stock may be purchased under a stock option shall be paid in full at the time of exercise in cash or, if permitted by the Committee, by means of tendering Common Stock or surrendering all or part of that or any other Employee Award, including Restricted Stock, valued at Fair Market Value on the date of exercise, or any combination thereof. The Committee shall determine acceptable methods for tendering Common Stock or Employee Awards to exercise a stock option as it deems appropriate. If permitted by the Committee, payment may be made by successive exercises by the Participant. The Committee may provide for procedures to permit the exercise or purchase of Employee Awards by (a) loans from the Company or (b) use of the proceeds to be received from the sale of Common Stock issuable pursuant to an Employee Award. Unless otherwise provided in the applicable Agreement, in the event shares of Restricted Stock are tendered as consideration for the exercise of a stock option, a number of the shares issued upon the exercise of the stock option, equal to the number of shares of Restricted Stock used as consideration therefor, shall be subject to the same restrictions as the Restricted Stock so submitted as well as any additional restrictions that may be imposed by the Committee.

10. TAX WITHHOLDING. The Company shall have the right to deduct applicable taxes from any Employee Award payment and withhold, at the time of delivery or vesting of cash or shares of Common Stock under this Plan, an appropriate amount of cash or number of shares of Common Stock or a combination thereof for payment of taxes required by law or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes. The Committee may also permit withholding to be satisfied by the transfer to the Company of shares of Common Stock theretofore owned by the holder of the Employee Award with respect to which withholding is required. If shares of Common Stock are used to satisfy tax withholding, such shares shall be valued based on the Fair Market Value when the tax withholding is required to be made.

11. AMENDMENT, MODIFICATION, SUSPENSION OR TERMINATION. The Board may amend, modify, suspend or terminate this Plan for the purpose of meeting or addressing any changes in legal requirements or for any other purpose permitted by law except that (a) no amendment or alteration that would impair the rights of any Participant under any Employee Award previously granted to such Participant shall be made without such Participant's consent, (b) no amendment or alteration shall be effective prior to approval by the Company's stockholders to the extent such approval is then required pursuant to Rule 16b-3 in order to preserve the applicability of any exemption provided by such rule to any Employee Award then outstanding (unless the holder of such Employee Award consents) or to the extent stockholder approval is otherwise required by applicable legal requirements, and (c) the Plan shall not be amended more than once every six months to the extent such limitation is required by Rule 16b-3(c)(2)(ii) (or any successor provision) under the Exchange Act as then in effect.

12. TERMINATION OF EMPLOYMENT. Upon the termination of employment by a Participant, any unexercised, deferred or unpaid Employee Awards shall be treated as provided in the specific Agreement evidencing the Employee Award. In the event of such a termination, the Committee may, in its discretion, provide for the extension of the exercisability of an Employee Award, accelerate the vesting or exercisability of an Employee Award, eliminate or make less restrictive any restrictions contained in an Employee Award, waive any restriction or other provision of this Plan or an Employee Award or otherwise amend or modify the Employee Award in any manner that is either (a) not adverse to such Participant or (b) consented to by such Participant.

13. ASSIGNABILITY. Unless otherwise determined by the Committee and provided in the Agreement, no Employee Award, Director Option or any other benefit under this Plan constituting a derivative security within the meaning of Rule 16a-1(c) under the Exchange Act shall be assignable or otherwise transferable except by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder. The Committee may prescribe and include in applicable Agreements other restrictions on transfer. Any attempted assignment of an Employee Award, Director Option or any other benefit under this Plan in violation of this Paragraph 13 shall be null and void.

14. ADJUSTMENTS.

(a) The existence of outstanding Employee Awards shall not affect in any manner the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the capital stock of the Company or its business or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock (whether or not such issue is prior to, on a parity with or junior to the Common Stock) or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding of any kind, whether or not of a character similar to that of the acts or proceedings enumerated above.

(b) In the event of any subdivision or consolidation of outstanding shares of Common Stock or declaration of a dividend payable in shares of Common Stock or capital reorganization or reclassification or other transaction involving an increase or reduction in the number of outstanding shares of Common Stock, the Committee may adjust proportionally (i) the number of shares of Common Stock reserved under this Plan and covered by outstanding Employee Awards and Director Options denominated in Common Stock or units of Common Stock; (ii) the exercise or other price in respect of such Employee Awards and Director Options; and (iii) the appropriate Fair Market Value and other price determinations for such Employee Awards and Director Options. In the event of any consolidation or merger of the Company with another corporation or entity or the adoption by the Company of a plan of exchange affecting the Common Stock or any distribution to holders of Common Stock of securities or property (other than normal cash dividends or dividends payable in Common Stock), the Committee shall make such adjustments or other provisions as it may deem equitable, including adjustments to avoid fractional shares, to give proper effect to such event. In the event of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Committee shall be authorized to issue or assume stock options, regardless of whether in a transaction to which Section 424(a) of the Code applies, by means of substitution of new options for previously issued options or an assumption of previously issued options, or to make provision for the acceleration of the exercisability of, or lapse of restrictions with respect to, Employee Awards and the termination of unexercised options in connection with such transaction.

15. RESTRICTIONS. No Common Stock or other form of payment shall be issued with respect to any Employee Award unless the Company shall be satisfied based on the advice of its counsel that such issuance will be in compliance with applicable federal and state securities laws. It is the intent of the Company that this Plan comply with Rule 16b-3 with respect to persons subject to Section 16 of the Exchange Act unless otherwise provided herein or in an Agreement, that any ambiguities or inconsistencies in the construction of this Plan be interpreted to give effect to such intention and that, if any provision of this Plan is found not to be in compliance with Rule 16b-3, such provision shall be null and void to the extent required to permit this Plan to comply with Rule 16b-3. Certificates evidencing shares of Common Stock delivered under this Plan may be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any securities exchange or transaction reporting system upon which the Common Stock is then listed and any applicable federal and state securities law. The Committee may cause a legend or legends to be placed upon any such certificates to make appropriate reference to such restrictions.

16. UNFUNDED PLAN. Insofar as it provides for Employee Awards of cash, and Employee Awards and Director Options covering Common Stock or rights thereto, this Plan shall be unfunded. Although bookkeeping accounts may be established with respect to Participants who are entitled to cash, Common Stock or rights thereto under this Plan, any such accounts shall be used merely as a bookkeeping convenience. The Company shall not be required to segregate any assets that may at any time be represented by cash, Common Stock or rights thereto, nor shall this Plan be construed as providing for such segregation, nor shall the Company, the Board or the Committee be deemed to be a trustee of any cash, Common Stock or rights thereto to be granted under this Plan. Any liability or obligation of the Company to any Participant with respect to a grant of cash, Common Stock or rights thereto under this Plan shall be based solely upon any contractual obligations that may be created by this Plan and any Agreement, and no such liability or obligation of the Company shall be deemed to be secured by any pledge or other encumbrance on any property of the Company. None of the Company, the Board or the Committee shall be required to give any security or bond for the performance of any obligation that may be created by this Plan.

17. GOVERNING LAW. This Plan and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by mandatory provisions of the Code or the securities laws of the United States, shall be governed by and construed in accordance with the laws of the State of Texas.

18. EFFECTIVE DATE OF PLAN.

(a) This Plan was approved by the Board of Directors of the Company as of December 5, 1994, and by the unanimous written consent dated as of December 21, 1994, of the holders of all of the shares of Common Stock outstanding and entitled to vote thereon.

(b) The Plan was amended effective May 20, 1996 for the purpose of increasing the number of shares reserved for issuance under the Plan from 1,500,000 to 2,000,000. The amendments to the Plan were approved by the Board of Directors of the Company as of March 18, 1996, and by the holders of a majority of the issued and outstanding shares of Common Stock of the Company as of May 20, 1996. For purposes of ease of administration and clarity of reference, the Plan was amended and restated to incorporate the 1996 amendments.

RENTERS CHOICE, INC.

RENTERS CHOICE, INC. AND SUBSIDIARY  
COMPUTATION OF EARNINGS PER COMMON SHARE

SEPTEMBER 30, 1996

	THREE MONTHS ENDED	NINE MONTHS ENDED
PRIMARY EARNINGS PER SHARE		
Net earnings .....	\$ 4,729,245	\$12,715,130
Weighted average number of common shares outstanding .....	24,815,988	24,612,407
Net effect of dilutive stock options based on the treasury stock method using average market price .....	387,733	436,358
Weighted average number of common and common equivalent shares outstanding .....	25,203,721	25,048,765
PRIMARY EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE .....	\$ 0.19	\$ 0.51
FULLY DILUTED EARNINGS PER SHARE		
Net earnings .....	\$ 4,729,245	\$12,715,130
Weighted average number of common shares outstanding .....	24,815,988	24,612,407
Net effect of dilutive stock options based on the treasury stock method using the greater of the average or ending market price .....	387,733	462,920
Weighted average number of common and common equivalents shares outstanding .....	25,203,721	25,075,327
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE ASSUMING FULL DILUTION .....	\$ 0.19	\$ 0.51

THE FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS FOUND ON PAGES 1 AND 2 OF THE COMPANY'S FORM 10-Q FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996.

	1,000	
	9-MOS	
DEC-31-1996		
SEP-30-1996		
	9,679	
	0	
	0	
	0	
	16,819	
	0	
	17,881	
	6,705	
	145,450	
0		0
0		0
	0	
	248	
145,450	119,301	
	22,058	
166,783		19,643
	134,420	
	10,503	
	0	
	(83)	
	21,941	
	9,226	
12,715		
	0	
	0	
	0	0
	12,715	
	0.51	
	0.51	

RENTAL MERCHANDISE, HELD FOR RENT.

BALANCE SHEET IS UNCLASSIFIED.

ADDITIONAL PAID IN CAPITAL, UNAMORTIZED VALUE OF STOCK AWARD, AND RETAINED EARNINGS.

STORE AND FRANCHISE MERCHANDISE SALES.

STORE AND FRANCHISE COST OF MERCHANDISE SOLD.

GENERAL AND ADMINISTRATIVE EXPENSE AND AMORTIZATION OF INTANGIBLES.