RENT A CENTER INC DE
Form 10-K
March 01, 2007

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

(Mark One)

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

For the fiscal year ended December 31, 2006

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

Commission File No. 0-25370

Rent-A-Center, Inc.
(Exact name of registrant as specified in its charter)

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

5700 Tennyson Parkway,
Suite 100
Plano, Texas 75024

(Address, including zip code of registrant s principal executive offices)

Registrant s telephone number, including area code: **972-801-1100**

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

Title of Each Class	**Name of Exchange on Which Registered**
Common Stock, par value $0.01 per share	**The Nasdaq Global Select Market, Inc.**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ   No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o   No þ

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 þ   No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ   Accelerated filer o   Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o   No þ

Aggregate market value of the 67,395,188 of Common Stock held by non-affiliates of the registrant at the closing sales price as reported on the National Association of Securities Dealers Automated Quotation System National Market System on June 30, 2006	**$ 1,675,444,374**
Number of shares of Common Stock outstanding as of the close of business on February 23, 2007:	**70,317,340**

Documents incorporated by reference:

Portions of the definitive proxy statement relating to the 2007 Annual Meeting of Stockholders of Rent-A-Center, Inc. are incorporated by reference into Part III of this report.

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. *Business.*

Overview

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

We are the largest operator in the United States rent-to-own industry with an approximate 41% market share based on store count. At December 31, 2006, we operated 3,406 company-owned stores nationwide and in Canada and Puerto Rico, including 21 stores in Wisconsin operated by our subsidiary, Get It Now, LLC, under the name Get It Now, and seven stores located in Canada operated by our subsidiary, Rent-A-Centre Canada, Ltd., under the name Rent-A-Centre. One of our other subsidiaries, ColorTyme, Inc., is a national franchisor of rent-to-own stores. At December 31, 2006, ColorTyme had 282 franchised rent-to-own stores in 38 states. These franchise stores represent an additional 3% market share based on store count.

Our stores generally offer high quality, durable products such as major consumer electronics, appliances, computers and furniture and accessories under flexible rental purchase agreements that generally allow the customer to obtain ownership of the merchandise at the conclusion of an agreed upon rental period. These rental purchase agreements are designed to appeal to a wide variety of customers by allowing them to obtain merchandise that they might otherwise be unable to obtain due to insufficient cash resources or a lack of access to credit. These agreements also cater to customers who only have a temporary need or who simply desire to rent, rather than purchase, the merchandise. Get It Now offers our merchandise on an installment sales basis in Wisconsin. We offer well known brands such as Sony, Philips, LG, Hitachi, Toshiba and Mitsubishi home electronics, Whirlpool appliances, Dell, Toshiba and Hewlett-Packard computers and Ashley, England, Berkline and Standard furniture. We also offer high levels of customer service, including repair, pickup and delivery, generally at no additional charge. Our customers benefit from the ability to return merchandise at any time without further obligation and make payments that build toward ownership. We estimate that approximately 70% of our business is from repeat customers.

We were incorporated in Delaware in 1986. Our principal executive offices are located at 5700 Tennyson Parkway, Suite 100, Plano, Texas 75024. Our telephone number is (972) 801-1100 and our company website is www.rentacenter.com. We do not intend for information contained on our website to be part of this Form 10-K. We make available free of charge on or through our website our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Additionally, we voluntarily will provide electronic or paper copies of our filings free of charge upon request.

Industry Overview

According to the Association of Progressive Rental Organizations, the rent-to-own industry in the United States consists of approximately 8,300 stores, and provides approximately 6.9 million products to over 2.8 million households. We estimate that the two largest rent-to-own industry participants account for approximately 5,000 of the total number of stores, and the majority of the remainder of the industry consists of operations with fewer than 20 stores. The rent-to-own industry is highly fragmented and, due primarily to the decreased availability of traditional financing sources, has experienced, and we believe will continue to experience, increasing consolidation. We believe this consolidation trend in the industry presents opportunities for us to continue to acquire additional stores on favorable terms.

The rent-to-own industry serves a highly diverse customer base. According to the Association of Progressive Rental Organizations, approximately 73% of rent-to-own customers have incomes between $15,000 and $50,000 per year. Many of the customers served by the industry do not have access to significant amounts of credit. For these customers, the rent-to-own industry provides an alternative for them to obtain brand name products. The Association of Progressive Rental Organizations also estimates that 95% of customers have high school diplomas. According to an April 2000 Federal Trade Commission study, 75% of rent-to-own customers were satisfied with their experience with rent-to-own transactions. The study noted that customers gave a wide variety of reasons for their satisfaction, including the ability to obtain merchandise they otherwise could not, the low payments, the lack of a credit check, the convenience and flexibility of the transaction, the quality of the merchandise, the quality of the maintenance, delivery, and other services, the friendliness and flexibility of the store employees, and the lack of any problems or hassles.

Strategy

We are currently focusing our strategic efforts on:

- enhancing the operations, revenue and profitability in our store locations;
- opening new and acquiring existing rent-to-own stores;
- expanding our financial services business within our existing store locations; and
- building our national brand.

Enhancing the Operations, Revenue and Profitability of Our Store Locations

We continually seek to improve store performance through strategies intended to produce gains in operating efficiency, revenue and profitability. For example, we continue to focus our operational personnel on prioritizing store profit growth, including increasing store revenue and managing store level operating expenses.

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

- use consumer focused advertising, including direct mail, television, radio and print media, while also utilizing new business relationships and strategic alliances to increase store traffic and expand our customer base;
- expand the offering of product lines to appeal to more customers to increase the number of product rentals and grow our customer base;
- expand our financial services business within our existing store locations;
- evaluate other growth strategies, including the entry into additional lines of business offering products and services designed to appeal to our customer demographic;
- employ strict store-level cost control;
- analyze and evaluate store operations against key performance indicators; and
- use a revenue and profit based incentive pay plan.

Opening New and Acquiring Existing Rent-To-Own Stores

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

Since March 1993, our company-owned store base has grown from 27 to 3,406 at December 31, 2006, primarily through acquisitions. During this period, we acquired over 3,600 stores, including approximately 390 of our franchised stores. These acquisitions occurred in approximately 200 separate transactions, including ten transactions where we acquired in excess of 50 stores.

The following table summarizes the store growth activity over the last three fiscal years:

	2006	**2005**	**2004**
Stores at beginning of period	2,760	2,875	2,648
New store openings	40	67	94
Acquired stores remaining open	646	44	191
Closed stores[(1)]			
Merged with existing stores	25	170	48
Sold or closed with no surviving store	15	56	10
Stores at end of period	3,406	2,760	2,875
Acquired stores closed and accounts merged with existing stores	164	39	111
Total approximate purchase price of acquisitions	$657.4 million	$38.3 million	$195.2 million[(2)]

(1) Substantially all of the merged, sold or closed stores in 2005 relate to our store consolidation plan discussed in more detail on p. 33.

(2) The total purchase price includes non-cash consideration of approximately $23.8 million in common stock issued and approximately $6.1 million in fair value assigned to the stock options assumed in connection with the acquisition of Rent Rite, Inc.

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

On May 7, 2004, we completed the acquisition of Rent Rite, Inc. for an aggregate purchase price of $59.9 million. Rent Rite operated 90 stores in 11 states, 26 of which were merged with our existing store locations. Approximately 40% of the consideration was paid with our common stock, with the remaining portion consisting of cash, the assumption of Rent Rite s stock options and retirement of Rent Rite s outstanding debt.

On May 14, 2004, we completed the acquisition of Rainbow Rentals, Inc. for an aggregate purchase price of $109.0 million. Rainbow Rentals operated 124 stores in 15 states, 29 of which were merged with our existing store locations. We funded the acquisition entirely with cash on hand.

2005 Store Consolidation. In 2005, we critically evaluated every market in which we operated by reviewing market share, operating results, competitive positioning, and growth potential. As a result, we closed or merged 114 stores and sold 35 stores during the third and fourth quarters of 2005.

2006 Acquisitions. On November 15, 2006, we completed the acquisition of Rent-Way, Inc., which operated 782 stores in 34 states, for an aggregate purchase price of $622.5 million, which included cash payments and borrowings under our senior credit facilities and direct transaction costs of approximately $7.4 million. We funded the acquisition with a $600.3 million increase in our senior credit facilities. The excess of the purchase price over the identified tangible and intangible assets was recorded as goodwill.

2007 Acquisitions. Since December 31, 2006, we have opened one new rent-to-own store and consolidated 21 stores (16 of which were due to the Rent-Way transaction) into existing locations.

We continue to believe there are attractive opportunities to expand our presence in the rent-to-own industry both nationally and internationally. We plan to accomplish our future growth through both selective and opportunistic acquisitions and new store development.

Table of Contents

Expanding Our Financial Services Business

In 2005, we began offering an array of financial services, in some of our existing rent-to-own stores, in addition to traditional rent-to-own products. These financial services include short term secured and unsecured loans, debit cards, check cashing and money transfer services. We believe that traditional financial services providers ineffectively market to our customer base and that an opportunity exists for us to leverage our knowledge of this demographic, as well as our operational infrastructure, into a complementary line of business offering financial services designed to appeal to our customer demographic. As of December 31, 2006, 150 locations in 14 states were offering some or all of these financial services. Since December 31, 2006, the Company has added financial services to three existing rent-to-own locations. We intend to offer these financial services in approximately 350 to 400 existing store locations by the end of 2007. There can be no assurance that we will be successful in our efforts to expand our operations to include such complementary financial services, or that such operations, should they be added, will prove to be profitable.

Building Our National Brand

We have implemented strategies to increase our name recognition and enhance our national brand. As part of that strategy, we utilize television and radio commercials, print advertisements, direct response and store signage, all of which are designed to increase our name recognition among our customers and potential customers. In 2006 and 2005, we also continued to pursue strategic alliances and other sponsorship opportunities, which we believe will further enhance our name recognition. We believe that as the Rent-A-Center name gains familiarity and national recognition through our advertising efforts, we will continue to educate our customers and potential customers about the rent-to-own alternative to merchandise purchases as well as solidify our reputation as a leading provider of high quality branded merchandise and services.

Table of Contents

Our Stores

At December 31, 2006, we operated 3,406 stores nationwide and in Canada and Puerto Rico. In addition, our subsidiary, ColorTyme, franchised 282 stores in 38 states. This information is illustrated by the following table:

Location	Company Owned	Number of Stores With Financial Services	Franchised
Alabama	73		5
Alaska	6	6	3
Arizona	70	10	7
Arkansas	55		1
California	147		5
Colorado	40	12	1
Connecticut	42		2
Delaware	21		
District of Columbia	4		
Florida	237		17
Georgia	118		14
Hawaii	11	6	4
Idaho	11	8	3
Illinois	121		7
Indiana	118		6
Iowa	29	6	
Kansas	40		16
Kentucky	78	5	1
Louisiana	53		6
Maine	31		9
Maryland	70		10
Massachusetts	73		2
Michigan	124		16
Minnesota	3		
Mississippi	36		2
Missouri	73	12	6
Montana	9	7	
Nebraska	18		
Nevada	22	3	3
New Hampshire	22		1
New Jersey	43		3
New Mexico	25		9
New York	190		3
North Carolina	148		12
North Dakota	3		
Ohio	206		5
Oklahoma	44		13
Oregon	29	8	4
Pennsylvania	174		3

Puerto Rico	44		
Rhode Island	17		1
South Carolina	83		7
South Dakota	4		
Tennessee	112	34	1
Texas	311		60
Utah	16	8	
Vermont	12		
Virginia	81		10
Washington	45	25	4
West Virginia	30		
Wisconsin	21*		
Wyoming	6		
Alberta, Canada	7		
TOTAL	3,406	150	282

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

Represents stores operated by Rent-A-Centre Canada, Ltd., one of our subsidiaries.

Our stores average approximately 4,600 square feet and are located primarily in strip centers. Because we utilize just in time inventory strategies, receiving merchandise shipments in relatively small quantities directly from vendors, we are able to dedicate approximately 75% of the store space to showroom floor, and also eliminate warehousing costs.

Rent-A-Center Store Operations

Product Selection

Our stores generally offer merchandise from four basic product categories: major consumer electronics, appliances, computers and furniture and accessories. Although we seek to maintain sufficient inventory in our stores to offer customers a wide variety of models, styles and brands, we generally limit inventory to prescribed levels to maintain strict inventory controls. We seek to provide a wide variety of high quality merchandise to our customers, and we emphasize high-end products from name-brand manufacturers. For the year ended December 31, 2006, furniture and accessories accounted for approximately 37% of our store rental revenue, consumer electronic products for 33%, appliances for 16% and computers for 14%. Customers may request either new merchandise or previously rented merchandise. Previously rented merchandise is generally 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.

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

Rental Purchase Agreements

Our customers generally enter into weekly, semi-monthly or monthly rental purchase agreements, which renew automatically upon receipt of each payment. We retain title to the merchandise during the term of the rental purchase agreement. Ownership of the merchandise generally transfers to the customer if the customer has continuously renewed the rental purchase agreement for a period of seven to 36 months, depending upon the product type, or exercises a specified early purchase option. Although we do not conduct a formal credit investigation of each customer, a potential customer must provide store management with sufficient personal information to allow us to verify their residence and sources of income. References listed by the customer are also contacted to verify the information contained in the customer s rental purchase order form. Rental payments are generally made in the store in cash, by credit card or debit card. Approximately 86% of our agreements are on a weekly term. Depending on state regulatory requirements, we may charge for the reinstatement of terminated accounts or collect a delinquent account fee, and collect loss/damage waiver fees from customers desiring product protection in case of theft or certain natural disasters. These fees are standard in the industry and may be subject to government-specified limits. Please read the section entitled Government Regulation.

Product Turnover

On average, a minimum rental term of 18 months is generally required to obtain ownership of new merchandise. Approximately 25% of our initial rental purchase agreements are taken to the full term of the agreement. The average total life for each product is approximately 19 months, which includes the initial rental period, all re-rental periods and idle time in our system. Turnover varies significantly based on the type of merchandise rented, with certain consumer electronics products, such as camcorders and DVD players and recorders, generally rented for shorter periods, while appliances and furniture are generally rented for longer periods. To cover the relatively high operating expenses generated by greater product turnover, rental purchase agreements require higher aggregate payments than are generally charged under other types of purchase plans, such as installment purchase or credit plans.

Customer Service

We generally offer same day or 24-hour delivery and installation of our merchandise at no additional cost to the customer. We provide any required service or repair without additional charge, except for damage in excess of normal wear and tear. Repair services are provided through our national network of 34 service centers, the cost of which may be reimbursed by the vendor if the item is still under factory warranty. If the product cannot be repaired at the customer s residence, we provide a temporary replacement while the product is being repaired. Generally, the customer is fully liable for damage, loss or destruction of the merchandise, unless the customer purchases an optional loss/damage waiver covering the particular loss. Most of the products we offer are covered by a manufacturer s warranty for varying periods which, subject to the terms of the warranty, is transferred to the customer in the event that the customer obtains ownership.

Collections

Store managers use our management information system to track collections on a daily basis. For fiscal years 2006, 2005, and 2004, the average week ending past due percentages were 6.58%, 6.76% and 6.57%, respectively. Our goal was to have no more than 5.99% of our rental agreements past due one day or more each Saturday evening in the three years. For the 2007 fiscal year, our goal remains the same at 5.99%. If a customer fails to make a rental payment when due, store personnel will attempt to contact the customer to obtain payment and reinstate the agreement, or will terminate the account and arrange to regain possession of the merchandise. We attempt to recover the rental items as soon as possible following termination or default of a rental purchase agreement, generally by the seventh day. Collection efforts are enhanced by the numerous personal and job-related references required of customers, the personal nature of the relationships between store employees and customers and the fact that, following a period in which a customer is temporarily unable to make payments on a piece of rental merchandise and must return the merchandise, that customer generally may re-rent a piece of merchandise of similar type and age on the terms the customer enjoyed prior to that period.

Pursuant to the rental purchase agreements, customers who become delinquent in their rental payments and fail to return the rented merchandise are or may over time become liable for accrued rent through the date the merchandise is finally returned or the amount of the early purchase option or, if the merchandise is not returned before expiration of the original term of weeks or months to ownership under the rental purchase agreement, then the total balance of payments necessary to acquire ownership of the merchandise. If the customer does not return the merchandise or make payment, the remaining book value of the rental merchandise associated with delinquent accounts is generally charged off on or before the ninetieth day following the time the account became past due. Charge offs in our rental stores due to customer stolen merchandise, expressed as a percentage of rental store revenues, were approximately 2.4% in 2006, 2.5% in 2005 and 2.4% in 2004.

In December 2004, we sold to certain qualified buyers our right to collect outstanding amounts due, as well as our interest in the merchandise rented, pursuant to delinquent rental purchase agreements that have been charged off in the ordinary course of business as described above. The accounts ranged from approximately one to five years old. We sold such accounts for approximately $7.9 million, and recorded that amount as other income in our consolidated statement of earnings. In the future, we may again sell charged off accounts. However, there can be no assurance that such sales will occur, or if consummated, will result in material sales proceeds.

Management

We organize our network of stores geographically with multiple levels of management. At the individual store level, each store manager is responsible for customer and account relations, delivery and collection of merchandise, inventory management, staffing, training store personnel and certain marketing efforts. Three times each week, store management is required to count the store s inventory on hand and compare the count to the accounting records, with the district manager performing a similar audit at least quarterly. In addition, our individual store managers track their daily store performance for revenue collected as compared to the projected performance of their store. Each store manager reports to a district manager within close proximity who typically oversees six to eight stores. Typically, a district manager focuses on developing the personnel in his or her district and ensuring all stores meet our quality, cleanliness and service standards. In addition, a district manager routinely audits numerous areas of the stores operations. A significant portion of a district manager s and store manager s compensation is dependent upon store revenues and profits.

At December 31, 2006, we had 501 district managers who, in turn, reported to 77 regional directors. Regional directors monitor the results of their entire region, with an emphasis on developing and supervising the district managers in their region. Similar to the district managers, regional directors are responsible for ascertaining whether stores are following the operational guidelines. The regional directors report to 12 senior vice presidents located throughout the country. The regional directors and senior vice presidents receive a significant amount of their compensation based on the revenue and profitability of the stores under their management.

Our executive management team at the home office oversees field operations, with an overall strategic focus. The executive management team directs and coordinates advertising, purchasing, financial planning and controls, employee training, personnel matters, acquisitions and new store initiatives. The centralization and coordination of such operational matters allows our store managers to focus on individual store performance. A significant amount of our executive management compensation is determined in part on the profits generated by us.

Management Information Systems

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

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

Purchasing and Distribution

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

We purchase the majority of our merchandise from manufacturers, who ship directly to each store. Our largest suppliers include Ashley and Whirlpool, who accounted for approximately 16.0% and 14.3%, respectively, of merchandise purchased in 2006. No other supplier accounted for more than 10% of merchandise purchased during this period. We do not generally enter into written contracts with our suppliers that obligate us to meet certain minimum purchasing levels. Although we expect to continue relationships with our existing suppliers, we believe that there are numerous sources of products available, and we do not believe that the success of our operations is dependent on any one or more of our present suppliers.

Marketing

We promote the products and services in our stores through direct mail advertising, radio, television and secondary print media advertisements. Our advertisements emphasize such features as product and name-brand selection, prompt delivery and the absence of initial deposits, credit investigations or long-term obligations. In 2006 and 2005, we also continued to pursue strategic alliances and other sponsorship opportunities, which we believe will enhance our name recognition. Advertising expense as a percentage of store revenue for the years ended December 31, 2006, 2005 and 2004 was approximately 2.8%, 2.9% and 2.8%, respectively. As we obtain new stores in our existing market areas, the advertising expenses of each store in the market can generally be reduced by listing all stores in the same market-wide advertisement.

Competition

The rent-to-own industry is highly competitive. According to industry sources and our estimates, the two largest industry participants account for approximately 5,000 of the 8,300 rent-to-own stores in the United States. We are the largest operator in the rent-to-own industry with 3,406 stores and 282 franchised locations as of December 31, 2006. Our stores compete with other national and regional rent-to-own businesses, as well as with rental stores that do not offer their customers a purchase option. With respect to customers desiring to purchase merchandise for cash or on credit, we also compete with retail stores. Competition is based primarily on store location, product selection and availability, customer service and rental rates and terms.

Seasonality

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

ColorTyme Operations

ColorTyme is our nationwide franchisor of rent-to-own stores. At December 31, 2006, ColorTyme franchised 282 rent-to-own stores in 38 states. These rent-to-own stores offer high quality durable products such as home electronics, appliances, computers and furniture and accessories. During 2006, 23 new franchise locations were added, six were closed and 31 were sold, of which 28 were sold to another Rent-A-Center subsidiary.

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

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

The franchise agreement also requires the franchised stores to exclusively offer for rent or sale only those brands, types and models of products that ColorTyme has approved. The franchised stores are required to maintain an adequate mix of inventory that consists of approved products for rent as dictated by ColorTyme policy manuals. ColorTyme negotiates purchase arrangements with various suppliers it has approved. ColorTyme s largest suppliers are Ashley and Whirlpool, which accounted for approximately 20% and 11% of merchandise purchased by

ColorTyme in 2006, respectively.

ColorTyme franchisees may also offer financial services, such as short term secured and unsecured loans, in addition to traditional rent-to-own products. In addition, some of ColorTyme s franchised stores offer custom rims and tires for sale or rental under the trade names RimTyme or ColorTyme Custom Wheels. As of December 31, 2006, 39 ColorTyme stores operated by 14 separate franchisees offered financial services and 55 ColorTyme stores

Table of Contents

operated by 26 separate franchisees offered tires and rims. In addition, one store operated by one franchisee offered only financial services and three stores operated by one franchisee offered only tires and rims.

ColorTyme is a party to an agreement with Wells Fargo Foothill, Inc., who provides $35.0 million in aggregate financing to qualifying franchisees of ColorTyme generally of up to five times their average monthly revenues. Under the Wells Fargo agreement, upon an event of default by the franchisee under agreements governing this financing and upon the occurrence of certain other events, Wells Fargo can assign the loans and the collateral securing such loans to ColorTyme, with ColorTyme paying the outstanding debt to Wells Fargo and then succeeding to the rights of Wells Fargo under the debt agreements, including the right to foreclose on the collateral. The Wells Fargo agreement expires on September 30, 2010. An additional $20.0 million of financing is provided by Texas Capital Bank, National Association under an agreement similar to the Wells Fargo financing. Rent-A-Center East, Inc., a subsidiary of Rent-A-Center, guarantees the obligations of ColorTyme under each of these agreements, excluding the effects of any amounts that could be recovered under collateralization provisions, up to a maximum amount of $55.0 million, of which $27.9 million was outstanding as of December 31, 2006. Mark E. Speese, Rent-A-Center s Chairman of the Board and Chief Executive Officer, is a passive investor in Texas Capital Bank, owning less than 1% of its outstanding equity.

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

ColorTyme licenses the use of its trademarks to the franchisees under the franchise agreement. ColorTyme owns the registered trademarks ColorTyme®, ColorTyme-What s Right for You®, and FlexTyme®, along with certain design and service marks. A federal trademark application for the mark RimTyme is pending.

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

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

Get It Now Operations

All of our Wisconsin stores are operated by our subsidiary, Get It Now, LLC. Get It Now operates under a retail model which generates installment credit sales through a retail transaction. As of December 31, 2006, we operated 21 company-owned stores within Wisconsin, all of which operate under the name Get It Now.

Financial Services Operations

We offer financial services products, such as short term secured and unsecured loans, debit cards, check cashing and money transfer services under the trade name Cash AdvantEdge. As of December 31, 2006, we offered some or all of these financial services products in 150 Rent-A-Center store locations in 14 states. We expect to offer such financial services products in approximately 350 to 400 Rent-A-Center store locations by the end of 2007. Stores offering financial services products in addition to traditional rent-to-own products generally require one to two additional employees. Our executive management team at the home office oversees our financial services business, which is managed at the store level by two regional directors and 13 district managers.

Our financial services business operates in a highly competitive industry. Similar financial services products are offered by large regional or national entities, smaller independent outlets and pawnshops. Competitive factors include location, service, maximum loan amount, repayment options and fees.

Trademarks

We own various registered trademarks, including Rent-A-Center®, Renters Choice®, Rent-Way®, and Get It Now®. We have submitted a trademark application for The Cash AdvantEdge in connection with our financial services business. The products held for rent also bear trademarks and service marks held by their respective manufacturers.

Employees

As of February 23, 2007, we had approximately 19,740 employees, of whom 494 are assigned to our headquarters and the remainder of whom are directly involved in the management and operation of our stores and service centers. The employees of the ColorTyme franchisees are not employed by us. While we have experienced limited union activity in the past, none of our employees are covered by a collective bargaining agreement.

We believe relationships with our employees are generally good. In connection with the settlement in December 2002 of a class action matter alleging discriminatory, gender-based employment practices, we entered into a four-year consent decree, which could be extended by the court for an additional one year upon a showing of good cause. Under the terms of the consent decree, we augmented our human resources department and our internal employee complaint procedures, enhanced our gender anti-discrimination training for all employees, and hired a consultant mutually acceptable to the parties to advise us on employment matters. We provided certain reports to the EEOC regarding our compliance with the consent decree, as well as our efforts to recruit, hire and promote qualified women. We continue to take steps to improve opportunities for women. The EEOC did not seek to extend the consent decree for the additional one year period and it expired by its terms in December 2006.

Government Regulation

Rental Purchase Transactions

State Regulation

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

Courts in each of Minnesota, which has a rental purchase statute, and New Jersey and Wisconsin, which do not have rental purchase statutes, have rendered decisions which classify rental purchase transactions as credit sales subject to consumer lending restrictions. Accordingly, we have modified our typical rental purchase agreements in each of these states in order to comply with the particular terms of each such ruling. In Minnesota, we have developed and utilized a separate rental agreement which does not provide customers with an option to purchase rented merchandise. In New Jersey, we have provided increased disclosures and longer grace periods in our rental purchase agreements, as well as adjusted our pricing in a way in which we believe is in conformity with the retail installment sales act. In Wisconsin, our Get It Now customers are provided an opportunity to purchase our merchandise through an installment sale transaction. We operate three stores in Minnesota and 43 stores in New Jersey. Get It Now, our subsidiary, operates 21 stores in Wisconsin.

North Carolina has no rental purchase legislation. However, the retail installment sales statute in North Carolina recognizes that rental purchase transactions which provide for more than a nominal purchase price at the end of the agreed rental period are not credit sales under such statute. We operate 148 stores in North Carolina.

Legislation has been introduced in New York that would significantly amend that state s existing rental purchase statute and, if enacted as proposed, would have a material and adverse impact on our operations in New York. We operate 190 stores in New York.

Federal Legislation

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

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

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

Financial Services

Thirty-four states and the District of Columbia provide safe harbor regulations for short term consumer lending, and two additional states, Wisconsin and New Mexico, permit short term consumer lending by licensed lenders. Safe harbor regulations typically set maximum fees, size and length of the loans. Fourteen states prohibit or limit short term consumer lending through small loan rate caps or state usury ceilings, including New York, New Jersey, Pennsylvania, Georgia, and Texas. In addition, our financial services business is subject to federal statutes and regulations such as the USA Patriot Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act, and similar state laws.

In October 2006, U.S. federal legislation was enacted which will limit our ability to offer financial services to active duty military personnel beginning in October 2007. We do not anticipate any significant effect on our operations due to the restriction on lending to military personnel.

Recently, legislative activity with respect to the financial services industry at the state level has increased significantly. Both beneficial and adverse legislation has been introduced in a number of states. There can be no assurance that new or revised financial services laws will not be enacted or, if enacted, that the laws would not have a material and adverse effect on us.

Item 1A. ***Risk Factors.***

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

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

Our continued growth depends on our ability to increase sales in our existing rent-to-own stores. Our same store sales increased by 1.9% in 2006 and decreased by 2.3% and 3.6% in 2005 and 2004, respectively. As a result of new store openings in existing markets and because mature stores will represent an increasing proportion of our store base over time, our same store revenues in future periods may be lower than historical levels.

As part of our growth strategy, we also plan to grow through expansion into the financial services business. We face risks associated with integrating this new business into our existing operations. In addition, the financial services industry is highly competitive and regulated by federal, state and local laws.

Table of Contents

We intend to also increase our total number of rent-to-own stores in both existing markets and new markets through a combination of new store openings and store acquisitions. This growth strategy is subject to various risks, including uncertainties regarding our ability to open new rent-to-own stores and our ability to acquire additional rent-to-own stores on favorable terms. We increased our store base by 227 stores in 2004. In 2005, however, we decreased our store base by 115 stores, as part of our critical evaluation of all stores and in anticipation of continued store growth. In 2006, our store base has increased another 646 stores, primarily as a result of the Rent-Way acquisition on November 15, 2006. We may not be able to continue to identify profitable new store locations or underperforming competitors as we currently anticipate.

Our growth strategy could place a significant demand on our management and our financial and operational resources. If we are unable to implement our growth strategy, our earnings may grow more slowly or even decrease.

If we fail to effectively manage the growth and integration of our new rent-to-own stores, our financial results may be adversely affected.

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

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

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

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

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

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

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

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

Under our senior credit facilities, an event of default would result if a third party became the beneficial owner of 35.0% or more of our voting stock or upon certain changes in the constitution of our Board of Directors. As of December 31, 2006, we are required to make principal payments under our senior credit facilities of $17.3 million in 2007, $17.3 million in 2008, $22.3 million in 2009, $92.3 million in 2010 and $769.1 million after 2010. These payments reduce our cash flow.

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

If the lenders under our debt instruments accelerate these obligations, we may not have sufficient liquid assets to repay amounts outstanding under these agreements.

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

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

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

Financial services transactions are regulated by federal law as well as the laws of certain states. Any adverse changes in these laws or the passage of adverse new laws with respect to the financial services business could slow our growth opportunities, expose us to litigation or alter our business practices in a manner that we may deem to be unacceptable.

Our financial services business is subject to federal statutes and regulations such as the USA Patriot Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act, and similar state laws. In addition, 34 states and the District of Columbia provide safe harbor regulations for short term consumer lending, and two additional states permit short term consumer lending by licensed dealers. Safe harbor regulations typically set maximum fees, size and length of the loans. Congress and/or the various legislatures in the states where we currently intend to offer financial services products may adopt new legislation or amend existing legislation with respect to our financial services business that could require us to alter our business practices in a manner that we may deem to be unacceptable, which could slow our growth opportunities.

Our business depends on a limited number of key personnel. The loss of any one of these individuals could disrupt our business.

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

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

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

We are a holding company and are dependent on the operations and funds of our subsidiaries.

We are a holding company, with no revenue generating operations and no assets other than our ownership interests in our direct and indirect subsidiaries. Accordingly, we are dependent on the cash flow generated by our direct and indirect operating subsidiaries and must rely on dividends or other intercompany transfers from our operating subsidiaries to generate the funds necessary to meet our obligations, including the obligations under our senior credit facilities and our outstanding subordinated notes. The ability of our subsidiaries to pay dividends or make other payments to us is subject to applicable state laws. Should one or more of our subsidiaries be unable to pay dividends or make distributions, our ability to meet our ongoing obligations could be materially and adversely impacted.

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

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

- quarterly variations in our results of operations, which may be impacted by, among other things, changes in same store sales, when and how many rent-to-own stores we acquire or open, and the rate at which we add financial services to our existing rent-to-own stores;

- quarterly variations in our competitors results of operations;

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

- the stock price performance of comparable companies; and general market conditions or market conditions specific to particular industries.

Failure to achieve and maintain effective internal controls could have a material adverse effect on our business and stock price.

Effective internal controls are necessary for us to provide reliable financial reports. If we cannot provide reliable financial reports, our brand and operating results could be harmed. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

While we continue to evaluate and improve our internal controls, we cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

We have completed documenting and testing our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm addressing these assessments. For the year ended December 31, 2006, our management has determined that our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Please refer to management s annual report on internal control over financial reporting, and the report by Grant Thornton LLP, which appear later in this report. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our stock price.

Item 1B. ***Unresolved Staff Comments.***

None.

Item 2. ***Properties.***

We lease space for substantially all of our stores and service center locations, as well as our current corporate and regional offices, under operating leases expiring at various times through 2015. Most of our store leases are five year leases and contain renewal options for additional periods ranging from three to five years at rental rates adjusted according to agreed-upon formulas. Store sizes range from approximately 1,500 to 24,000 square feet, and average approximately 4,600 square feet. Approximately 75% of each store s space is generally used for showroom space and 25% for offices and storage space. Our headquarters, including Get It Now and ColorTyme, are each currently located at 5700 Tennyson Parkway, Plano, Texas, and consist of approximately 121,270 square feet.

In December 2005, we acquired approximately 15 acres of land located in Plano, Texas, on which we are building a new corporate headquarters facility. The purchase price for the land was approximately $5.2 million. Total building costs, including furnishings and technology infrastructure, are expected to be in the range of $30.0-$32.0 million, and construction began in January 2006. Building costs have been paid on a percentage of completion basis throughout the construction period, and the building is expected to be completed and our corporate headquarters relocated during the first quarter of 2007. We are financing this project from cash flow generated from operations. As of December 31, 2006, we have spent approximately $21.5 million in construction costs and expect to spend the remaining

$8.5-$10.5 million by the end of the first quarter of 2007. Our remaining lease obligation on our existing location, as of the estimated move date, will be approximately $4.3 million. We are attempting to sublease some or all of the space at our current location to offset the remaining lease obligation.

We believe that suitable store space generally is available for lease and we would be able to relocate any of our stores without significant difficulty should we be unable to renew a particular lease. We also expect additional space is readily available at competitive rates to open new stores. Under various federal and state laws, lessees may be liable for environmental problems at leased sites even if they did not create, contribute to, or know of the problem.

Table of Contents

We are not aware of and have not been notified of any material violations of federal, state or local environmental protection or health and safety laws, but cannot guarantee that we will not incur material costs or liabilities under these laws in the future.

Item 3. ***Legal Proceedings.***

Legal Proceedings

From time to time, we, along with our subsidiaries, are party to various legal proceedings arising in the ordinary course of business. We account for our litigation contingencies pursuant to the provisions of SFAS No. 5 and FIN 14, which require that we accrue for losses that are both probable and reasonably estimable.

As of December 31, 2006, we had accrued $77.0 million relating to probable losses for our outstanding litigation as follows:

Perez Matter	$ 58.00 million
California Attorney General Settlement	10.35 million
Burdusis/French/Corso Settlement	4.95 million
Other Litigation	2.25 million
Anticipated Legal Fees and Expenses	1.45 million
Total Accrual	$ 77.00 million

We continue to monitor our litigation exposure, and will review the adequacy of our legal reserves on a quarterly basis in accordance with applicable accounting rules. Please refer to *Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Involving Critical Estimates, Uncertainties or Assessments in Our Financial Statements* regarding our process for evaluating our litigation reserves. Except as described below, we are not currently a party to any material litigation and, other than as set forth above, we have not established any other reserves for our outstanding litigation.

Colon v. Thorn Americas, Inc. The plaintiff filed this class action in November 1997 in New York state court. This matter was assumed by us in connection with the Thorn Americas acquisition in 1998. The plaintiff acknowledges that rent-to-own transactions in New York are subject to the provisions of New York s Rental Purchase Statute but contends the Rental Purchase Statute does not provide us immunity from suit for other statutory violations. The plaintiff alleges we have a duty to disclose effective interest under New York consumer protection laws, and seeks damages and injunctive relief for failure to do so. This suit also alleges violations relating to excessive and unconscionable pricing, late fees, harassment, undisclosed charges, and the ease of use and accuracy of payment records. In the prayer for relief, the plaintiff requests class certification, injunctive relief requiring us to cease certain marketing practices and price our rental purchase contracts in certain ways, unspecified compensatory and punitive damages, rescission of the class members contracts, an order placing in trust all moneys received by us in connection with the rental of merchandise during the class period, treble damages, attorney s fees, filing fees and costs of suit, pre- and post-judgment interest, and any further relief granted by the court. The plaintiff has not alleged a specific monetary amount with respect to the request for damages.

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

From June 2003 until May 2005, there was no activity in this case. On May 18, 2005, we filed a motion to dismiss the plaintiff s claim and to decertify the class, based upon the plaintiff s failure to schedule her claim in this matter in her earlier voluntary bankruptcy proceeding. The plaintiff opposed our motion to dismiss the case and asked the court to grant it an opportunity to find a substitute class representative in the event the court determined Ms. Colon was no longer adequate. On January 17, 2006, the court issued an order denying our motion to dismiss, but indicated that Ms. Colon was not a suitable class representative and noted that no motion to intervene to add additional class representatives had been filed. On March 14, 2006, plaintiffs counsel filed a motion seeking leave to intervene Shaun Kelly as an additional class representative. In response to plaintiffs motion, the court ordered the parties to confer regarding a possible mediation and ruled that we could depose Mr. Kelly before filing any objection to his intervention. Plaintiffs counsel has not responded to our repeated requests to schedule Mr. Kelly s deposition or schedule a mediation. Accordingly, on January 30, 2007, we filed a notice pursuant to the applicable rules requiring plaintiff to serve notice of its intent to proceed with its case within 90 days. The plaintiff s failure to serve this notice will constitute a basis for a motion to dismiss the action for unreasonably neglecting to proceed. If the plaintiff does fail to serve the required notice, we intend to file such a motion to dismiss as soon as possible thereafter. If the court ultimately allows Mr. Kelly to intervene and enters a final certification order, we intend to pursue an interlocutory appeal of such certification order.

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

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

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

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

On September 30, 2003, the court granted our motion to dismiss without prejudice, dismissed without prejudice the outside directors and underwriters separate motions to dismiss and denied our motion to transfer venue. In its order on the motions to dismiss, the court granted the lead plaintiffs leave to replead the case within certain parameters.

On July 7, 2004, the plaintiffs again repled their claims by filing a third amended consolidated complaint, raising allegations of similar violations against the same parties generally based upon alleged facts not previously asserted. We, along with certain officer and director defendants and the underwriter defendants, filed motions to dismiss the third amended consolidated complaint on August 23, 2004. A hearing on the motions was held on April 14, 2005. On July 25, 2005, the court ruled on these motions, dismissing with prejudice the claims against our outside directors as well as the underwriter defendants, but denying our motion to dismiss. In evaluating this motion to dismiss, the court was required to view the pleadings in the light most favorable to the plaintiffs and to take the plaintiffs allegations as true. On August 18, 2005, we filed a motion to certify the dismissal order for an interlocutory appeal, which was denied on November 14, 2005. A hearing on class certification was held on June 22, 2006. No ruling on class certification has been made by the court. By order dated October 4, 2006, the court granted the plaintiff s unopposed motion to stay discovery in this matter until January 1, 2007, allowing discovery to continue during the months of January and March 2007, with a concluding date of March 30, 2007.

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

California Attorney General Inquiry. We reached a settlement with the California Attorney General to resolve the inquiry received in the second quarter of 2004 regarding our business practices in California with respect to cash prices and our membership program. Under the terms of the settlement, which has now been documented and approved by the court, we will create a restitution fund in the amount of approximately $9.6 million in cash, to be distributed to certain groups of customers (i) who entered into rental purchase agreements and acquired ownership of property under those rental purchase agreements between November 1, 2004 and November 16, 2006, (ii) who entered into rental purchase agreements between November 1, 2004 and November 16, 2006, and that were still active as of November 16, 2006, or (iii) who purchased new memberships in the Rent-A-Center Preferred Customer Club between November 1, 2004 and November 16, 2006. Restitution checks will contain a restrictive endorsement releasing us from claims that arise from or relate to the cash price set forth in the rental purchase agreement and the customer s purchase of the Preferred Customer Club. We are in the process of selecting a settlement administrator to implement the restitution program and expect to fund the restitution account in the second quarter of 2007. We also entered into an injunction (a) limiting the cash price, total of payments and purchase option price in future rental purchase agreements to the specified limits on prices set forth in the recent amendment to the Karnette Rental-Purchase Act, which became effective as of January 1, 2007, and (b) governing certain business practices with respect to our club program. In addition, we will cause the reserve amount in the Griego settlement fund to be paid to the Attorney General. Finally, we agreed to a civil penalty in the amount of $750,000. Under the terms of the settlement, any unclaimed restitution funds at the conclusion of the restitution period will be paid to the Attorney General, and made available for a limited period of time to resolve any similar claims filed against us by our customers. In connection with the settlement, we did not admit liability for our past business practices in California. To account for the aforementioned costs, as well as our attorneys fees, we recorded a pre-tax charge of $10.35 million in the third quarter of 2006.

Hilda Perez v. Rent-A-Center, Inc., et al. On March 15, 2006, we were notified that the Supreme Court of New Jersey reinstated claims made by the plaintiff in a matter styled Hilda Perez v. Rent-A-Center, Inc. The matter is a putative class action filed in the Superior Court, Law Division, Camden County, New Jersey on March 21, 2003, arising out of several rent-to-own contracts Ms. Perez entered into with us. The requested class period is April 23, 1999 to March 17, 2006.

In her amended complaint, Perez alleges on behalf of herself and a class of similarly situated individuals that the rent-to-own contracts she entered into with us violated New Jersey s Retail Installment Sales Act (RISA) and, as a result, New Jersey s Consumer Fraud Act (CFA) because such contracts imposed a time price differential in excess of the 30% per annum interest rate permitted under New Jersey s criminal usury statute. Perez alleges that RISA incorporates the 30% interest rate limit, limiting time price differentials to 30% per annum. Perez seeks reimbursement of the excess fees and/or interest contracted for, charged and collected, together with treble damages, and an injunction compelling us to cease the alleged violations. Perez also seeks pre-judgment and post-judgment interest, together with attorneys fees and costs and disbursements.

Following the filing of her amended complaint, we filed a counterclaim to recover the merchandise retained by Perez after she ceased making rental payments. Perez answered the counterclaim, denying liability and claiming entitlement to the items she rented from us. In August 2003, Perez moved for partial summary judgment and we cross-moved for summary judgment. In January 2004, the trial court held that rent-to-own transactions are not covered by RISA nor subject to the interest rate limit in New Jersey s criminal usury statute. The court granted our cross-motion, dismissing

Perez s claims under RISA and the CFA. Perez then appealed to the Superior Court of New Jersey, Appellate Division. Oral argument before the Appellate Division occurred in December 2004, and in February 2005 the Appellate Division rejected Perez s arguments and ruled in our favor on all of her claims. Perez subsequently appealed to the Supreme Court of New Jersey, who heard oral arguments in November 2005.

On March 15, 2006, the Supreme Court of New Jersey reversed the judgment of the trial court and the Appellate Division and remanded the case to the trial court for reinstatement of Perez s complaint and for further proceedings. In its decision, the Supreme Court held that rent-to-own contracts in New Jersey are retail installment contracts under RISA, and that RISA incorporates the 30% interest rate cap in New Jersey s criminal usury statute. The court rejected our legal arguments and reinstated Perez s claims under RISA and the CFA. We filed a motion for reconsideration with the Supreme Court of New Jersey, and in response, the court issued an order on July 10, 2006 stating that the March 15, 2006 decision is prospective, except that it applies to plaintiff and, if the trial court certifies a class, to the members of the class. On January 8, 2007, the United States Supreme Court denied our writ of certiorari. A hearing on class certification is currently scheduled for April 5, 2007.

In light of the Supreme Court of New Jersey s decision in March 2006, we addressed the impact of the decision on our operations in New Jersey and implemented certain changes to mitigate that impact. We currently operate 43 stores in New Jersey and estimate that we entered into approximately 294,000 rent-to-own contracts in New Jersey from April 23, 1999 to March 17, 2006, at which date we changed our business practices. We estimate the average amount paid on these agreements is approximately $840.

We intend to continue vigorously defending ourselves in this matter, while exploring opportunities to resolve it on reasonable terms. No class has been certified by the trial court and no finding of liability or damages has been made by the court against us. Nevertheless, we believe that a loss with respect to this matter is probable and, accordingly, we recorded a pre-tax charge of $58.0 million in the fourth quarter of 2006, an amount we believe is the appropriate accounting charge for this matter at this time. In evaluating whether a charge was required and, if so, the amount of such charge, the significant factors we considered included (i) the status of the case to date, including the ruling by the New Jersey Supreme Court that our rental purchase agreements constituted retail installment contracts under RISA and the denial of the writ for certiorari by the Supreme Court of the United States, (ii) our experience in similar matters in New Jersey and other jurisdictions, (iii) damage theories proposed by the plaintiffs and their experts in the matter, (iv) damage theories proposed by our experts in the matter, (v) our belief as to the relative strength of the parties arguments with respect to calculating damages, (vi) our analysis of our database of information relating to the rental purchase agreements included within the putative class, (vii) the pending class certification motion, (viii) settlement discussions with the plaintiffs in the matter, and (ix) our incurred and expected legal expenses to date on the matter. Based on our review and analysis of this matter, we believe the pre-tax charge of $58.0 million was appropriate.

Due, in part, to the inherent uncertainty as to how damages will be calculated by a court in New Jersey in this matter, we are unable to estimate the range of reasonably possible loss in this matter, and there can be no assurance that the amount of the loss ultimately incurred in this matter will not be greater than the amount recorded at this time. We intend to adjust this reserve in the future as the case develops and circumstances warrant. The resolution of this matter could have a material and adverse impact on our financial position and cash flow.

State Wage and Hour Class Actions

We are currently subject to various material actions pending against us in the state of California, all of which allege we violated the wage and hour laws of such state.

Jeremy Burdusis, et al. v. Rent-A-Center, Inc., et al./Israel French, et al. v. Rent-A-Center, Inc. As previously announced on August 10, 2006, we have reached a settlement with the plaintiffs to resolve the *Jeremy Burdusis, et al. v. Rent-A-Center, Inc., et al./Israel French, et al. v. Rent-A-Center, Inc. and Kris Corso, et al. v. Rent-A-Center, Inc.* coordinated matters pending in state court in Los Angeles, California. These matters allege violations by us of certain wage and hour laws of California. Under the terms of the settlement, which has now been documented and approved by the court, we anticipate that we will pay an aggregate of $4.95 million in cash, including plaintiff s attorneys fees, to be distributed to an agreed-upon class of our employees from August 1998 through November 9, 2006. We intend to fund the entire settlement amount in March 2007. In connection with the settlement, we did not admit liability for our wage and hour practices in California. We recorded a pre-tax expense of $4.95 million in the third quarter of 2006 to account for the aforementioned settlement amount and attorneys fees.

Eric Shafer et al. v. Rent-A-Center, Inc. This matter is a state-wide class action originally filed on May 20, 2002, in the Superior Court of California for Los Angeles County. A similar matter, entitled *Victor E. Johnson et al. v.*

Table of Contents

Rent-A-Center, Inc. was filed on February 24, 2004, in the Orange County Superior Court. These actions were coordinated before the Los Angeles County Superior Court on March 7, 2005.

Plaintiffs in these actions allege that we improperly classified our California store managers as exempt from overtime under California wage and hour law and failed to pay them overtime. In addition, they allege that we failed to provide our California store managers with meal and rest periods, failed to pay store managers overtime due when their employment ended, and engaged in unfair business practices. Plaintiffs seek to recover back overtime wages and accompanying waiting time penalties, civil penalties under California Labor Code Section 2699, certain injunctive relief and attorneys fees.

On July 15, 2005, plaintiffs filed their motion for class certification. We opposed plaintiffs motion. The hearing on plaintiffs motion for class certification was held on May 12, 2006. On June 23, 2006, the court granted class certification as to plaintiffs claims for back overtime wages and accompanying waiting time penalties, and as to plaintiffs unfair business practices claim. The court denied class certification as to plaintiffs meal and rest period claims and as to plaintiffs claim for civil penalties under California Labor Code Section 2699.

We estimate that the class includes approximately 950 store managers employed by us in California since September 1998. From September 1998 through December 31, 2006, we operated an average of 140 stores in California each year during that period. Equivalent hourly rates for annual salaries paid to the class members ranged from approximately $16.83-$31.25 per hour based on a 40 hour work week. Plaintiffs assert that store managers were required to work approximately 10-20 hours of overtime per week. Overtime wages would be calculated at 1.5 times the hourly rate. In addition, California law provides for a waiting time penalty of up to thirty days wages when an employer willfully fails to pay any compensation due to an employee upon separation.

The court s class certification ruling is procedural only and does not address the merits of plaintiffs claims. We believe that class certification was improper and that our store managers are properly classified as exempt from overtime. We intend to file a motion for class de-certification at the appropriate time. In addition, we continue to believe the plaintiffs claims in this matter are without merit and intend to vigorously defend ourselves as this matter progresses. We cannot assure you, however, that we will be found to have no liability in these matters.

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

None.

Table of Contents

PART II

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

Our common stock has been listed on the Nasdaq Global Select Market® and its predecessors under the symbol RCII since January 25, 1995, the date we commenced our initial public offering. The following table sets forth, for the periods indicated, the high and low sales price per share of the common stock as reported.

2006	**High**	**Low**
Fourth Quarter	$ 31.00	$ 26.58
Third Quarter	29.95	22.03
Second Quarter	28.46	22.66
First Quarter	26.15	18.20

2005	**High**	**Low**
Fourth Quarter	$ 20.36	$ 14.90
Third Quarter	24.36	17.91
Second Quarter	27.75	22.36
First Quarter	27.89	24.08

As of February 23, 2007, there were approximately 62 record holders of our common stock.

We have not paid any cash dividends on our common stock since the time of our initial public offering. Any change in our dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including future earnings, capital requirements, contractual restrictions, financial condition, future prospects and any other factors our Board of Directors may deem relevant.

Cash dividend payments are subject to the restrictions in our senior credit facilities and the indenture governing our subordinated notes. These restrictions would not currently prohibit the payment of cash dividends. Please see the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Senior Credit Facilities on page 41 of this report for further discussion of such restrictions.

Under our common stock repurchase program, we are authorized to repurchase up to $400.0 million in aggregate purchase price of our common stock. As of December 31, 2006, we had repurchased $360.8 million in aggregate purchase price of our common stock under our stock repurchase program. For the year ended December 31, 2006, we repurchased 202,800 shares of our common stock in aggregate purchase price of $4.7 million, of which no repurchases were made in the fourth quarter of 2006.

Table of Contents

Stock Performance Graph

The following chart represents a comparison of the five year total return of our common stock to the NASDAQ Market Index and Rent-A-Center s Peer Group Index. The Peer Group Index consists of Aaron Rents, Inc. and Rent-Way, Inc. Rent-Way was acquired by Rent-A-Center on November 15, 2006. The graph assumes $100 was invested on December 31, 2001 and dividends, if any, were reinvested for all years ending December 31.

Table of Contents

Item 6. *Selected Financial Data*

The selected financial data presented below for the five years ended December 31, 2006 have been derived from our consolidated financial statements as audited by Grant Thornton LLP, independent registered public accounting firm. All prices and amounts have been adjusted to reflect the 5-for-2 split of our common stock effected in August 2003. The historical financial data are qualified in their entirety by, and should be read in conjunction with, the consolidated financial statements and the notes thereto, the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and other financial information included in this report.

	Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
	(In thousands, except per share data)				
Consolidated Statements of Earnings					
Revenues					
Store					
Rentals and fees	$ 2,174,239(1)	$ 2,084,757	$ 2,071,866	$ 1,998,952	$ 1,828,534
Merchandise sales	175,954	177,292	166,594	152,984	115,478
Installment sales	26,877	26,139	24,304	22,203	6,137
Other	15,607	7,903	3,568	3,083	2,589
Franchise					
Merchandise sales	36,377	37,794	41,398	45,057	51,514
Royalty income and fees	4,854	5,222	5,525	5,871	5,792
Total revenue	2,433,908	2,339,107	2,313,255	2,228,150	2,010,044
Operating expenses					
Direct store expenses					
Cost of rentals and fees	476,462(1)	452,583	450,035	432,696	383,400
Cost of merchandise sold	131,428	129,624	119,098	112,283	84,628
Cost of installment sales	11,346	10,889	10,512	10,639	3,776
Salaries and other expenses	1,385,437(2)	1,358,760(5)	1,277,926	1,180,115	1,070,265
Franchise cost of merchandise sold	34,862	36,319	39,472	43,248	49,185
	2,039,535	1,988,175	1,897,043	1,778,981	1,591,254
General and administrative expenses	93,556	82,290	75,481	66,635	63,296
Amortization of intangibles	5,573	11,705(6)	10,780	12,512	5,045
Litigation expense (reversion)	73,300(3)	(8,000)(7)	47,000(10)		
Restructuring charge		15,166(8)			
Total operating expenses	2,211,964	2,089,336	2,030,304	1,858,128	1,659,595
Operating profit	221,944	249,771	282,951	370,022	350,449

Income from sale of charged off accounts			(7,924)[11]		
Finance charges from refinancing	4,803[4]		4,173	35,260	
Interest expense, net	53,003	40,703	35,323	43,932	62,006
Earnings before income taxes	164,138	209,068	251,379	290,830	288,443
Income tax expense	61,046	73,330[9]	95,524	109,334	116,270

Item 6. ***Selected Financial Data Continued***

	Year Ended December 31,				
	2006	2005	2004	2003	2002
	(In thousands, except per share data)				
NET EARNINGS	103,092	135,738	155,855	181,496	172,173
Preferred dividends					10,212
Net earnings allocable to common stockholders	$ 103,092	$ 135,738	$ 155,855	$ 181,496	$ 161,961
Basic earnings per common share	$ 1.48	$ 1.86	$ 1.99	$ 2.16	$ 2.20
Diluted earnings per common share	$ 1.46	$ 1.83	$ 1.94	$ 2.08	$ 1.89
Consolidated Balance Sheet Data					
Rental merchandise, net	$ 1,056,233(12)	$ 750,680	$ 759,111	$ 680,700	$ 631,724
Intangible assets, net	1,281,597	929,326	922,404	797,434	743,852
Total assets	2,740,956(12)	1,948,664	1,967,788	1,831,302	1,626,652
Total debt	1,293,278	724,050	708,250	698,000	521,330
Total liabilities[13]	1,797,997(12)	1,125,232	1,173,517	1,036,472	784,252
Stockholders equity	942,959(12)	823,432	794,271	794,830	842,400
Operating Data (Unaudited)					
Stores open at end of period	3,406	2,760	2,875	2,648	2,407
Comparable store revenue growth (decrease)[14]	1.9%	(2.3)%	(3.6)%	3.0%	6.0%
Weighted average number of stores	2,848	2,844	2,788	2,560	2,325
Franchise stores open at end of period	282	296	313	329	318

(1) Includes the effects of adopting SAB 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, of approximately $3.1 million decrease in pre-tax revenue and $738,000 decrease in pre-tax depreciation expense related to adjustments for deferred revenue.

(2) Includes the effects of adopting SFAS 123R, *Share-Based Payment*, of approximately $7.8 million of pre-tax expense related to stock options and restricted stock units granted.

(3) Includes the effects of a $4.95 million pre-tax expense in the third quarter of 2006 associated with the settlement of the *Burdusis/French/Corso* litigation, the effects of a $10.35 million pre-tax expense in the third quarter of 2006 associated with the settlement with the California Attorney General and the effects of a $58.0 million pre-tax expense in the fourth quarter of 2006 associated with the litigation reserve with respect to the *Perez* case.

(4) Includes the effects of a $2.2 million pre-tax expense in the third quarter of 2006 and the effects of a $2.6 million pre-tax expense in the fourth quarter of 2006 for the refinancing of our senior credit facilities.

(5) Includes the effects of $5.2 million in charges recorded in the third and fourth quarters of 2005 as a result of Hurricanes Katrina, Rita and Wilma. These charges were primarily related to the disposal of inventory and fixed assets.

(6) Includes the effects of $3.7 million in goodwill impairment charges recorded in the third quarter of 2005 as result of Hurricane Katrina.

(7) Includes the effect of a pre-tax legal reversion of $8.0 million recorded in the first quarter of 2005 associated with the settlement of a class action lawsuit in the state of California.

(8) Includes the effects of a $15.2 million pre-tax restructuring expense as part of the store consolidation plan announced September 6, 2005.

(9) Includes the effects of a $2.0 million tax audit reserve credit associated with the examination and favorable resolution of our 1998 and 1999 federal tax returns and a $3.3 million state tax reserve credit due to a change in estimate related to potential loss exposures.

(10) Includes the effects of a pre-tax legal settlement charge of $47.0 million recorded in the third quarter of 2004 associated with the settlement of a class action lawsuit in the state of California.

(11) Includes the effects of $7.9 million in pre-tax income associated with the 2004 sale of previously charged off accounts.

(12) Includes the effects of adopting SAB 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, of a $4.2 million increase in accounts receivable, an increase in accrued liabilities of $31.0 million, a decrease in accumulated depreciation of $6.4 million, an increase in deferred tax assets of $7.6 million and a decrease in retained earnings of $12.8 million related to adjustments for deferred revenue and a $1.0 million increase in prepaid expenses, a $1.9 million decrease in accrued liabilities, a decrease in deferred tax assets of $1.1 million and an increase in retained earnings of $1.8 million related to adjustments for property taxes.

(13) In accordance with the adoption of SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, total liabilities also includes redeemable convertible voting preferred stock for the years ended December 31, 2002 through December 31, 2005.

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

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

Overview

We are the largest rent-to-own operator in the United States with an approximate 41% market share based on store count. At December 31, 2006, we operated 3,406 company-owned stores nationwide and in Canada and Puerto Rico, including 21 stores in Wisconsin operated by our subsidiary, Get It Now, LLC, under the name Get It Now, and seven stores located in Canada operated by our subsidiary, Rent-A-Centre Canada, Ltd., under the name Rent-A-Centre. Another of our subsidiaries, ColorTyme, is a national franchisor of rent-to-own stores. At December 31, 2006, ColorTyme had 282 franchised rent-to-own stores in 38 states, all of which operated under the ColorTyme name.

Our stores generally offer high quality durable products such as major consumer electronics, appliances, computers, and furniture and accessories under flexible rental purchase agreements that generally allow the customer to obtain ownership of the merchandise at the conclusion of an agreed-upon rental period. These rental purchase agreements are designed to appeal to a wide variety of customers by allowing them to obtain merchandise that they might otherwise be unable to obtain due to insufficient cash resources or a lack of access to credit. These agreements also cater to customers who only have a temporary need, or who simply desire to rent, rather than purchase, the merchandise. Rental payments are made generally on a weekly basis and, together with applicable fees, constitute our primary revenue source.

Our expenses primarily relate to merchandise costs and the operations of our stores, including salaries and benefits for our employees, occupancy expense for our leased real estate, advertising expenses, lost, damaged, or stolen merchandise, fixed asset depreciation, and corporate and other expenses.

In 2005, we began offering financial services products, such as short term secured and unsecured loans, debit cards, check cashing and money transfer services in some of our existing rent-to-own stores under the trade name Cash AdvantEdge. As of December 31, 2006, we offered some or all of these financial services products in 150 Rent-A-Center store locations in 14 states. We expect to offer such financial services products in approximately 350 to 400 Rent-A-Center store locations by the end of 2007.

We plan to continue growing through selective and opportunistic acquisitions of existing rent-to-own stores and development of new rent-to-own stores, as well as by offering other products and services, including financial services products, which are designed to appeal to our customer demographic.

We have pursued an aggressive growth strategy since 1993. We have sought to acquire underperforming rent-to-own stores to which we could apply our operating model as well as open new stores. As a result, the acquired stores have generally experienced more significant revenue growth during the initial periods following their acquisition than in subsequent periods. Typically, a newly opened rent-to-own store is profitable on a monthly basis in the ninth to twelfth month after its initial opening. Historically, a typical store has achieved cumulative break-even profitability in 18 to 24 months after its initial opening. Total financing requirements of a typical new store approximate $500,000, with roughly 75% of that amount relating to the purchase of rental merchandise inventory. A newly opened store historically has achieved results consistent with other stores that have been operating within the system for greater than two years by the end of its third year of operation. As a result, our quarterly earnings are impacted by how many new stores we opened during a particular quarter and the quarters preceding it. Because of significant growth since our formation, our historical results of operations and period-to-period comparisons of such results and other financial data, including the rate of earnings growth, may not be meaningful or indicative of future results.

In addition, we strategically open or acquire stores near market areas served by existing stores (cannibalize) to enhance service levels, gain incremental sales and increase market penetration. This planned cannibalization may negatively impact our same store revenue and cause us to grow at a slower rate. There can be no assurance that we will open any new rent-to-own stores in the future, or as to the number, location or profitability thereof.

The following discussion focuses on our results of operations, and issues related to our liquidity and capital resources. You should read this discussion in conjunction with the consolidated financial statements and notes thereto included elsewhere in this report.

Table of Contents

Forward-Looking Statements

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

- uncertainties regarding the ability to open new rent-to-own stores;
- our ability to acquire additional rent-to-own stores on favorable terms;
- our ability to identify and successfully enter new lines of business offering products and services that appeal to our customer demographic, including our financial services products;
- our ability to enhance the performance of acquired stores, including the Rent-Way stores recently acquired;
- our ability to control store level costs;
- our ability to identify and successfully market products and services that appeal to our customer demographic;
- our ability to enter into new and collect on our rental purchase agreements;
- our ability to enter into new and collect on our short term loans;
- the passage of legislation adversely affecting the rent-to-own or financial services industries;
- interest rates;
- economic pressures affecting the disposable income available to our targeted consumers, such as high fuel and utility costs;
- changes in our stock price and the number of shares of common stock that we may or may not repurchase;
- changes in our debt ratings;
- changes in estimates relating to self-insurance liabilities and income tax and litigation reserves;
- changes in our effective tax rate;
- our ability to maintain an effective system of internal controls;
- changes in the number of share-based compensation grants, methods used to value future share-based payments and changes in estimated forfeiture rates with respect to share-based compensation;
- the resolution of our litigation, including, without limitation, the *Perez* case; and

the other risks detailed from time to time in our SEC reports.

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

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

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent losses and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. In applying

Table of Contents

accounting principles, we must often make individual estimates and assumptions regarding expected outcomes or uncertainties. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. We believe the following are areas where the degree of judgment and complexity in determining amounts recorded in our consolidated financial statements make the accounting policies critical.

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

Over the previous 10 years, our loss exposure has increased, primarily as a result of our growth. We continually institute procedures to manage our loss exposure and increases in health care costs through a greater focus on the risk management function, a transitional duty program for injured workers, ongoing safety and accident prevention training, and various programs designed to minimize losses and improve our loss experience in our store locations. We make assumptions on our liabilities within our self-insured retentions using actuarial loss forecasts, which are prepared using methods and assumptions in accordance with standard actuarial practice, and third party claim administrator loss estimates which are based on known facts surrounding individual claims. These assumptions incorporate increases in health care costs. Periodically, we reevaluate our estimate of liability within our self-insured retentions, including our assumptions related to our loss forecasts and estimates, using updated actuarial loss forecasts and currently valued third party claim administrator loss estimates. At that time, we evaluate the adequacy of our accruals by comparing amounts accrued on our balance sheet for anticipated losses to our updated actuarial loss forecasts and third party claim administrator loss estimates, and make adjustments to our accruals as needed based upon such review. During the second quarter of 2006, we refined the process in which we determine the net amount accrued for losses within our self-insured retentions based on our actual loss experience. Prior to the quarter ended June 30, 2006, we used only general industry loss development factors in developing our estimate. Beginning with the quarter ended June 30, 2006, we also use company specific development factors developed by independent actuaries and based on our loss experience to determine our reserves.

As of December 31, 2006, the amount accrued for losses within our self-insured retentions with respect to workers compensation, general liability and auto liability insurance was $97.7 million, as compared to $90.4 million at December 31, 2005. The increase in the net amount accrued for the 2006 period is a result of an estimate for new claims expected for the current policy period, and the net effect of prior period claims which have closed or for which additional development or changes in estimates have occurred. If any of the factors that contribute to the overall cost of insurance claims were to change, the actual amount incurred for our self-insurance liability would be directly affected. While we believe our loss prevention programs will reduce our total cost for self-insurance claims, our actual cost could be greater than the amounts currently accrued.

Litigation Reserves. We are the subject of litigation in the ordinary course of our business. Our litigation involves, among other things, actions relating to claims that our rental purchase agreements constitute installment sales contracts, violate state usury laws or violate other state laws to protect consumers, claims asserting violations of wage and hour laws in our employment practices, as well as claims we violated the federal securities laws. In preparing our financial statements at a given point in time, we account for these contingencies pursuant to the provisions of SFAS No. 5 and FIN 14, which requires that we accrue for losses that are both probable and reasonably estimable.

Each quarter, we make estimates of our probable liabilities, if reasonably estimable, and record such amounts in our consolidated financial statements. These amounts represent our best estimate, or may be the minimum range of probable loss when no single best estimate is determinable. We, together with our counsel, monitor developments related to these legal matters and, when appropriate, adjustments are made to reflect current facts and circumstances.

Table of Contents

As of December 31, 2006, we had accrued $77.0 million relating to probable losses for our outstanding litigation as follows:

Perez Matter	$ 58.00 million
California Attorney General Settlement	10.35 million
Burdusis/French/Corso Settlement	4.95 million
Other Litigation	2.25 million
Anticipated Legal Fees and Expenses	1.45 million
Total Accrual	$ 77.00 million

At December 31, 2005, we had accrued $4.5 million, of which $1.9 million was related to the settlement of the *Pucci/Chess* matter (which was funded in February 2006), approximately $1.3 million related to the settlement of the *Rose/Madrigal* matters (which was funded in May 2006), and an additional $1.3 million for anticipated legal fees and expenses with respect to our other outstanding litigation.

As with most litigation, the ultimate outcome of our pending litigation is uncertain. Our estimates with respect to accrual for our litigation expenses reflect our judgment as to the appropriate accounting charge at the end of a period under SFAS No. 5 and FIN 14. Factors that we consider in evaluating our litigation reserves include:

- the procedural status of the matter;
- our views and the views of our counsel as to the probability of a loss in the matter;
- the relative strength of the parties arguments with respect to liability and damages in the matter;
- anticipated legal fees with respect to our intended defense of the matter;
- settlement discussions, if any, between the parties;
- how we intend to defend ourselves in the matter; and
- our experience.

Significant factors that may cause us to increase or decrease our accrual with respect to a matter include:

- judgments or finding of liability against us in the matter by a trial court;
- the granting of, or declining to grant, a motion for class certification in the matter;
- definitive decisions by appellate courts in the requisite jurisdiction interpreting or otherwise providing guidance as to applicable law;
- anticipated increases or decreases in legal defense costs;
- the payment of defense costs;

favorable or unfavorable decisions as the matter progresses;

settlements agreed to in principle by the parties in the matter, subject to court approval; and

final settlement of the matter.

We continue to monitor our litigation costs and review the adequacy of our legal reserves on a quarterly basis in accordance with applicable accounting rules. Additional developments in our litigation or other adverse or positive developments or rulings in our litigation could affect our assumptions and thus, our accrual.

Income Tax Reserves. We are subject to federal, state, local and foreign income taxes. We estimate our liabilities for income tax exposure by evaluating our income tax exposure each quarter based on the information available to us, and establishing reserves in accordance with the criteria for accrual under SFAS No. 5. In estimating this liability, we evaluate a number of factors in ascertaining whether we may have to pay additional taxes and interest when all examinations by taxing authorities are concluded. The actual amount accrued as a liability is based on an evaluation of the underlying facts and circumstances, a thorough research of the technical merits of our tax

Table of Contents

positions taken, and an assessment of the chances of us prevailing in our tax positions taken. We consult with external tax advisers in reaching our conclusions. At December 31, 2006, we had accrued $7.1 million relating to our contingent liabilities for income taxes, as compared to $4.9 million at December 31, 2005.

If we make changes to our accruals in any of the foregoing areas in accordance with the policies described above, these changes would impact our earnings. Increases to our accruals would reduce earnings and, similarly, reductions to our accruals would increase our earnings. A pre-tax change of $1.1 million in our estimates would result in a corresponding $0.01 change in our earnings per common share.

Stock-Based Compensation Expense. On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123, *Share-Based Payment* (SFAS 123R), using the modified prospective method, which requires that the measurement and recognition of share-based payment awards to our employees and directors be made at the estimated fair value on the grant date. Determining the fair value of any share-based awards requires information about several variables including, but not limited to, expected stock volatility over the terms of the awards, expected dividend yields and the predicted employee exercise behavior. We base expected life on historical exercise and post-vesting employment-termination experience, and expected volatility on historical realized volatility trends. In addition, all stock-based compensation expense is recorded net of an estimated forfeiture rate. The forfeiture rate is based upon historical activity and is analyzed at least quarterly as actual forfeitures occur. Stock options are valued using the binomial method pricing model with the following weighted average assumptions: expected volatility of 24.14% to 52.55%, a risk-free interest rate of 4.36% to 4.41%, no dividend yield, and an expected life of 4.20 years. During the year ended December 31, 2006, we recognized $7.8 million in pre-tax compensation expense from stock options.