

RENT A CENTER INC DE  
Form 10-K  
February 27, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2008

or

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

**Commission File No. 0-25370**

**Rent-A-Center, Inc.**

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

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**45-0491516**

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

**5501 Headquarters Drive**

**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:

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

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

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

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  No

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

Indicate by check mark 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

<b>Aggregate market value of the 58,202,180 shares of Common Stock held by non-affiliates of the registrant at the closing sales price as reported on The Nasdaq Global Select Market, Inc. on June 30, 2008</b>	<b>\$ 1,197,218,843</b>
<b>Number of shares of Common Stock outstanding as of the close of business on February 20, 2009:</b>	<b>65,986,784</b>

**Documents incorporated by reference:**

Portions of the definitive proxy statement relating to the 2009 Annual Meeting of Stockholders of Rent-A-Center, Inc. are incorporated by reference into Part III of this report.

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**PART I**

**Item 1. Business.**

**Overview**

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

We are the largest operator in the United States rent-to-own industry with an approximate 38% market share based on store count. At December 31, 2008, we operated 3,037 company-owned stores nationwide and in Canada and Puerto Rico, including 31 retail installment sales stores under the names Get It Now and Home Choice and eight rent-to-own stores located in Canada operating under the name Rent-A-Centre. Our subsidiary, ColorTyme, is a national franchisor of rent-to-own stores. At December 31, 2008, ColorTyme had 222 franchised rent-to-own stores in 34 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. The rental purchase transaction is a flexible alternative for consumers to obtain the use and enjoyment of brand name merchandise without incurring debt. Key features of the rental purchase transaction include:

convenient payment options in-store or over the phone;

no long-term obligations;

right to terminate without penalty;

no requirement of a credit history;

set-up and delivery included at no additional charge;

product maintenance;

lifetime reinstatement; and

flexible options to obtain ownership 90 days same as cash, early purchase options, or payment through the term of the agreement.

We offer well known brands such as Sony, Philips, LG, Hitachi, Toshiba and Mitsubishi home electronics, Whirlpool appliances, Toshiba, Sony, Hewlett-Packard and Dell computers and Ashley, England and Klaussner 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 75% of our business is from repeat customers.

We also offer financial services products, such as short term secured and unsecured loans, debit cards, check cashing, tax preparation and money transfer services, in some of our existing rent-to-own stores under the trade names RAC

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Financial Services and Cash AdvantEdge. As of December 31, 2008, we offered some or all of these financial services products in 351 Rent-A-Center store locations in 18 states.

We were incorporated in Delaware in 1986. Our principal executive offices are located at 5501 Headquarters Drive, Plano, Texas 75024. Our telephone number is (972) 801-1100 and our company website is [www.rentacenter.com](http://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.

**Table of Contents****Industry Overview**

According to the Association of Progressive Rental Organizations, the rent-to-own industry in the United States and Canada consists of approximately 8,500 stores and serves approximately 3.0 million households. We estimate that the two largest rent-to-own industry participants account for approximately 4,800 of the total number of stores, and the majority of the remainder of the industry consists of operations with fewer than 50 stores. The rent-to-own industry is highly fragmented and has experienced significant consolidation. We believe this consolidation trend in the industry will continue, presenting opportunities for us to continue to acquire additional stores or customer accounts 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 household incomes between \$15,000 and \$50,000 per year. The rent-to-own industry serves 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. 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.

**Historical Growth**

From 1993 to 2006, we pursued an aggressive growth strategy in which we sought to acquire underperforming rent-to-own stores to which we could apply our operating model as well as open new stores. Since March 1993, our company-owned store base has grown from 27 to 3,037 at December 31, 2008, primarily through acquisitions, including the acquisition in November 2006 of Rent-Way, Inc. ( Rent-Way ), which operated 782 stores in 34 states. During this period, we acquired over 3,600 stores, including approximately 400 of our franchised stores. These acquisitions occurred in approximately 240 separate transactions, including ten transactions where we acquired in excess of 50 stores. In addition, we strategically opened or acquired stores near market areas served by existing stores ( cannibalized ) to enhance service levels, gain incremental sales and increase market penetration.

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

	2008	2007	2006
Stores at beginning of period	3,081	3,406	2,760
New store openings	26	27	40
Acquired stores remaining open	5	14	646
Closed stores <sup>(1)</sup>			
Merged with existing stores	45	363	25
Sold or closed with no surviving store	30	3	15
Stores at end of period	3,037	3,081	3,406
Acquired stores closed and accounts merged with existing stores	38	36	164

Total approximate purchase price of acquisitions	\$15.7 million	\$20.1 million	\$657.4 million
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- (1) Substantially all of the merged, sold or closed stores in 2008 and 2007 relate to our store consolidation plans discussed below and in more detail in Note F, Restructuring, in the Notes to the Consolidated Financial Statements on page 59.

*Store Consolidation.* We believe our aggressive store acquisition program and our planned cannibalization resulted in over penetration in some markets. We continually evaluate every market in which we operate by reviewing operating results, competitive positioning, and growth potential. As a result of such review in December 2007, we committed to a store consolidation plan pursuant to which we closed or merged 282 stores as of December 31, 2008.



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*Future Store Growth.* 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 continue opening new stores in targeted markets and 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. In addition, we intend to pursue our acquisition strategy of targeting under-performing and under-capitalized rent-to-own stores. We also intend to continue to critically evaluate the markets in which we operate and will close, sell or merge underperforming stores.

**Competitive Strengths**

We believe the following competitive strengths position us well for continued growth:

*Geographic Footprint.* At December 31, 2008, we operated 3,037 stores nationwide and in Canada and Puerto Rico. In addition, our subsidiary, ColorTyme, franchised 222 stores in 34 states. We believe the number and location of our stores combined with the strength of our brand provides us with a unique platform from which to market additional products and services to our customer demographic. The following table shows the geographic distribution of our stores:

<b>Location</b>	<b>Company Owned</b>	<b>Number of Stores With Financial Services</b>	<b>Franchised</b>
Alabama	60		5
Alaska	6	5	4
Arizona	58	6	
Arkansas	39		1
California	139		5
Colorado	44	13	1
Connecticut	40		1
Delaware	20		
District of Columbia	4		
Florida	188		20
Georgia	88		12
Hawaii	11	7	5
Idaho	11	6	3
Illinois	110		8
Indiana	101		4
Iowa	27	11	
Kansas	34	13	8
Kentucky	67	20	3
Louisiana	45		5
Maine	28		9
Maryland	65		11
Massachusetts	69		1
Michigan	104		9
Minnesota	4*		
Mississippi	35		1
Missouri	65	16	
Montana	9	5	

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Nebraska	14	1	
Nevada	23	4	
New Hampshire	20		1
New Jersey	44		
New Mexico	26	10	9
New York	178		3
North Carolina	133		15
North Dakota	3		
Ohio	183	51	4
Oklahoma	44		6
Oregon	27		4
Pennsylvania	152		3
Puerto Rico	43		
Rhode Island	16		2
South Carolina	67		6
South Dakota	4		
Tennessee	91	37	4
Texas	292	113	35
Utah	16	8	
Vermont	9		
Virginia	70		11
Washington	44	25	3
West Virginia	33		
Wisconsin	21*		
Wyoming	5		
Canada	8		
TOTAL	3,037	351	222

\* Retail installment stores

Includes six retail installment stores

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*Management Expertise.* Our management team at both the corporate and operational levels is highly experienced and motivated. Our executive management team has extensive experience in the rent-to-own industry with over 100 combined years of service with us and has demonstrated the ability to grow our business through their operational leadership and strategic vision.

*Financial Strength.* Historically, our operations have generated strong cash flow, averaging \$210.2 million in operating cash flow per year since 1998. As a result, we have been able to invest in acquisitions and new business opportunities while maintaining a strong balance sheet.

*Collections.* The breadth of our store locations also provides us with the operational infrastructure to support our collection efforts. The ability to timely and personally contact customers through our local field personnel is critical to our ability to collect payments or regain possession of rented merchandise. In addition, we believe we have developed lasting relationships with our customers, as well as obtained extensive knowledge of our targeted customer demographic, through our collection experience.

*Integration Experience.* 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.

## **Strategy**

We intend to capitalize on our competitive strengths and continue to build our position as a leading provider of products and services to cash and credit constrained consumers by focusing our strategic efforts on the following:

- enhancing the operations, revenue and profitability of our store locations;
- seeking additional distribution channels for our products and services;
- leveraging our financial strength; and
- strengthening customer relationships through community involvement.

### ***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, which highlights the appealing features of our services to increase store traffic and expand our customer base;
- focus on the customer experience, both in our store locations, as well as on our website;
- focus on improving the operations in our existing financial services store locations;

respond to competitive pressures on a market by market basis with specifically tailored action plans;

acquire customer accounts;

expand the offering of product lines to appeal to more customers to increase the number of transactions and grow our customer base;

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.

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***Seeking Additional Distribution Channels for Our Products and Services***

We believe there are opportunities for us to obtain new customers through sources other than our existing rent-to-own stores. Through agreements with other retailers, we intend to offer the rent-to-own transaction to consumers who do not qualify for financing from such retailer, offering the consumer the opportunity to obtain the merchandise they want or need. There can be no assurance that we will be successful in our efforts to expand our distribution channels by entering into such agreements with other retailers, or that such operations, should they be added, will prove to be profitable.

***Leveraging our Financial Strength***

We believe we can leverage our financial strength by investing significantly in people, processes and technology to reduce our cost infrastructure. We are focused on lowering operating expenses through our investments in centralized inventory purchasing, centralized procurement, and enhanced information management systems. We believe the creation of a centralized inventory purchasing system will allow us to better manage our inventory at the store level while expanding availability of the most popular products. The development of an on-line procurement tool and careful review of our processes has allowed us to reduce many of our store-level expenses. We believe our financial strength allows us to pursue these and other initiatives while also making strategic use of our cash to enhance our balance sheet.

***Strengthening Customer Relationships through Community Involvement***

We seek to further strengthen relationships with our customers through community involvement both at the local store level and as a company through corporate donations and initiatives. We encourage the management of each of our stores to involve themselves with their respective local communities. In addition, we participate in various programs, including the following:

Since 2002, co-workers at our headquarters facility in Plano, Texas have worked to fight hunger through the North Texas Food Bank. On a national basis, we have committed \$500,000 over four years in the fight to end hunger.

Each spring, we raise funds for Big Brothers Big Sisters of America. With a donation of \$1 or more, customers, co-workers and the community sign their name on a paper spring egg to hang in our stores. Since 2003, we have donated more than \$1.4 million.

In 2004, we established the Make A Difference Scholarship which provides \$50,000 annually to customers, their children and our co-workers' children who are pursuing an undergraduate degree at the college or university of their choice.

Since 2005, we have teamed up with Boys & Girls Clubs to furnish special RAC Rooms to the centers that need them most. Each year, we create 20 new RAC Rooms around the country. Clubs choose the merchandise they need, including furniture, televisions, electronics and computers.

We pledged \$800,000 over four years in grants to Junior Achievement offices in communities across the U.S. as part of our commitment to promoting financial literacy in our communities. Our program with Junior Achievement assures that financial literacy programs will be taught to children in grades K-12 in schools where at least 51% of students qualify for free or reduced lunch.

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Random Acts of Caring brings unexpected gifts to people and organizations that serve others. Examples include furnishing rooms in three fire stations in New York and donating \$5,000 to the FDNY Foundation, and providing Summit Academy, a school for children with special learning needs in Warren, Ohio, with six computers and two HDTV s.

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### **Rent-A-Center Store Operations**

#### ***Store Design***

Our stores average approximately 4,700 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.

#### ***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, 2008, consumer electronic products accounted for approximately 35% of our store rental revenue, furniture and accessories for 33% and appliances and computers for 16% each. 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, Nintendo, Philips, LG, Hitachi, Toshiba and Mitsubishi. We offer major appliances manufactured by Whirlpool, including refrigerators, washing machines, dryers, freezers and ranges. We offer desktop and laptop computers from Toshiba, Sony, Hewlett Packard and Dell. 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 and Klausner 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 30 months, depending upon the product type, or exercises a specified early purchase option. We do not conduct a formal credit investigation of each customer. We do require a potential customer to 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 or by telephone. We accept cash and credit or debit cards. 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 20 months, which includes the initial rental period, all re-rental periods and idle time in our system. 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.



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### ***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 24 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 2008, 2007, and 2006, the average week ending past due percentages were 6.38%, 6.43% and 6.58%, 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 2009 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 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 2.5% in 2008, 2.8% in 2007 and 2.4% in 2006.

### ***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. Two times each week, store management is required to count the store's inventory on hand and compare the count to our 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, 2008, we had 483 district managers who, in turn, reported to 76 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 10 division vice presidents

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located throughout the country. The regional directors and division 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 portion of our executive management compensation is determined by 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, division 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 are currently investing in new inventory management systems and processes to enhance further our inventory management.

We purchase the majority of our merchandise from manufacturers, who ship directly to each store. Our largest suppliers include Whirlpool and Ashley, who accounted for approximately 14.8% and 12.6%, respectively, of merchandise purchased in 2008. 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 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.

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### **Marketing**

We promote the products and services in our stores through 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. Our advertisements emphasize such features as product and name-brand selection, prompt delivery, price match, service at no extra cost, lifetime reinstatement and the absence of initial deposits, credit investigations or long-term obligations. In 2007, we began the RAC Worry-Free Guarantee<sup>®</sup> initiative to further highlight and promote these aspects of the rent-to-own transaction. In 2008, we introduced Credit Free Life, an integrated campaign utilizing TV, radio, newspaper and e-mail initiatives, as well as an information microsite, to explain how a rent-to-own transaction can help consumers meet their needs without incurring debt. 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.

Advertising expense as a percentage of store revenue for the years ended December 31, 2008, 2007 and 2006 was approximately 2.9%, 2.8% 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 4,800 of the 8,500 rent-to-own stores in the United States and Canada. We are the largest operator in the rent-to-own industry with 3,037 stores and 222 franchised locations as of December 31, 2008. 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.

### **Retail Store Operations**

As of December 31, 2008, we operated 31 stores utilizing a retail model which generates installment credit sales through a retail sale transaction. Twenty-three of these stores operate under the name Get It Now and eight stores under the name Home Choice. Our retail stores are located in Illinois, Minnesota and Wisconsin.

### **ColorTyme Operations**

ColorTyme is our nationwide franchisor of rent-to-own stores. At December 31, 2008, ColorTyme franchised 222 stores in 34 states. These rent-to-own stores primarily offer high quality durable products such as home electronics, appliances, computers and furniture and accessories. During 2008, 15 new franchise locations were added, 17 were sold, of which 16 were sold to another Rent-A-Center subsidiary, and three stores closed.

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All of the ColorTyme franchised stores use ColorTyme's trade names, service marks, trademarks and logos. 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 up to \$20,000 per new location for existing franchisees and up to \$25,000 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 and provides us a right of first refusal to purchase the franchise location of a ColorTyme franchisee that wishes to exit the business.

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 18.5% and 11.0% of merchandise purchased by ColorTyme in 2008, 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, 2008, 42 ColorTyme stores operated by 17 separate franchisees offered financial services. Twelve ColorTyme stores operated by four separate franchisees offered tires and rims exclusively.

ColorTyme is a party to an agreement with Wells Fargo Foothill, Inc. ( Wells Fargo ), who provides \$35.0 million in aggregate financing to qualifying franchisees of ColorTyme generally 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 ( Texas Capital Bank ) 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 \$24.5 million was outstanding as of December 31, 2008.

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 and servicemarks to its franchisees under the franchise agreement. ColorTyme owns various trademarks and servicemarks, including ColorTyme®, RimTyme®, and Your Hometown ColorTyme®, that are used in connection with its operations and have been registered with the United States Patent and Trademark office. The duration of these marks is unlimited, subject to periodic renewal and continued use.

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.



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### **Financial Services Operations**

We offer financial services products, such as short term secured and unsecured loans, debit cards, check cashing, tax preparation and money transfer services under the trade names RAC Financial Services and Cash AdvantEdge within certain of our existing Rent-A-Center store locations. As of December 31, 2008, we offered some or all of these financial services products in 351 Rent-A-Center store locations in 18 states. We intend to focus our resources on improving the operations in these existing financial services store locations and do not plan to add significantly to the number of Rent-A-Center store locations offering financial services at this time.

Stores offering financial services products in addition to traditional rent-to-own products generally require one to two additional employees. Management of our financial services business is integrated with our rent-to-own operations, with five financial services regional directors and 44 financial services district managers reporting to our division vice presidents.

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 trademarks and servicemarks, including Rent-A-Center<sup>®</sup>, that are used in connection with our operations and have been registered with the United States Patent and Trademark Office. The duration of our trademarks is unlimited, subject to periodic renewal and continued use. In addition, we have obtained trademark registrations in Canada. We believe we hold the necessary rights for protection of the trademarks and servicemarks essential to our business. The products held for rent in our stores also bear trademarks and servicemarks held by their respective manufacturers.

### **Employees**

As of February 18, 2009, we had approximately 17,900 employees, of whom 575 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.

### **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 the disclosed cash price or the retail value of the rental product.

Courts in each of Minnesota, which has a rental purchase statute, and Wisconsin and New Jersey, which do not have rental purchase statutes, have rendered decisions which classify rental purchase transactions as credit sales subject to consumer lending restrictions. Accordingly, in Minnesota and Wisconsin, we offer our customers an opportunity to purchase our merchandise through an installment sale transaction in our Get It Now and Home Choice stores. In New Jersey, we have modified our typical rental purchase agreements to provide disclosures, grace

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periods, and pricing that we believe conform with the retail installment sales act. We operate 25 Get It Now and Home Choice stores in Minnesota and Wisconsin, and 44 Rent-A-Center stores in New Jersey.

North Carolina has no rental purchase legislation. However, the retail installment sales statute in North Carolina expressly provides that lease transactions which provide for more than a nominal purchase price at the end of the agreed rental period are not credit sales under the statute. We operate 133 stores in North Carolina.

Legislation has been introduced in New York from time to time that would significantly amend that state's existing rental purchase statute. Recently introduced bills would impose significant pricing restrictions in New York and, if enacted as proposed, would have a material and adverse impact on our operations in New York. While predecessors of these bills have not received widespread support from members of either body of New York's legislature, we are unable to assure you that such adverse legislation will not be enacted in the future. We operate 178 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 as to whether new or revised rental purchase laws will be enacted or whether, if enacted, the laws would not have a material and adverse effect on us.

*Financial Services*

Our financial services business is subject to regulation and supervision primarily at the state and federal levels. We intend to offer our financial services products only in those jurisdictions with favorable regulatory environments.

In those jurisdictions where we make consumer loans directly to consumers (currently all states in which we offer financial services other than Texas), we are a licensed lender where required and are subject to various state regulations regarding the terms of our short term consumer loans and our policies, procedures and operations relating to those loans. Typically, state regulations limit the amount that we may lend to any consumer and, in some cases, the number of loans or transactions that we may make to any consumer at one time or in the course of a year. These state regulations also typically restrict the amount of finance or service charges or fees that we may assess in connection with any loan or transaction and may limit a customer's ability to renew or rollover a loan.

We operate our financial services business in Texas under the Texas Credit Services Organization law which requires that we register as a Credit Services Organization (CSO) with the Texas Secretary of State, pay a registration fee and post surety bonds for each location. The CSO may, for a fee, help a consumer obtain an extension of credit from an independent third-party lender. We must also comply with various disclosure requirements, which include providing the consumer with a disclosure statement and contract that detail the services to be performed by the CSO and the total cost of those services along with various other items. Additionally, the CSO must give a consumer the right to cancel the credit services agreement without penalty within 3 days after the agreement is signed.

We are subject to regulation in several jurisdictions in which we operate that require the registration or licensing of check cashing companies or regulate the fees that check cashing companies may impose. In some of these jurisdictions, we may be required to file fee schedules with the state or conspicuously post the fees charged for cashing checks by each branch. In some cases, we are required to meet minimum bonding or capital requirements and are subject to record-keeping requirements. We are licensed in each of the states or jurisdictions in which a license is currently required for us to operate as a check cashing company and have filed our schedule of fees with

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each of the states or other jurisdictions in which such a filing is required. To the extent those states have adopted ceilings on check cashing fees, the fees we currently charge are at or below the maximum ceiling.

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, the Anti-Money Laundering Act, and similar state laws.

In October 2006, U.S. federal legislation was enacted which limited our ability to offer financial services to active duty military personnel beginning in October 2007. There was no significant effect on our operations due to the restriction on lending to military personnel.

In 2008, legislation was enacted in Ohio which revised the statutes governing the short term consumer loan product we offered there at that time. The rate caps under the revised statute made it economically unfeasible to continue offering our loan products pursuant to that statute. As a result of this adverse legislation, we began offering alternative loan products and services in Ohio under other applicable provisions of Ohio law. We cannot assure you that we will be successful in offering these alternative products and services to consumers in Ohio, or whether such alternative products and services will prove to be economically feasible. We operate 51 stores in Ohio.

Legislative activity with respect to the financial services industry at the state and federal level continues to be significant. Both favorable and adverse legislation has been introduced in a number of states as well as in Congress. There can be no assurance as to whether new or revised financial services laws will be enacted or whether, if enacted, 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 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 increase revenue in our rent-to-own stores, 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 2.3%, 2.1% and 1.9% in 2008, 2007 and 2006, 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. If we are unable to increase revenue in our rent-to-own stores, our earnings may grow more slowly or even decrease.

#### **If we fail to effectively manage the growth, integration and profitability of our financial services business, we may not realize the economic benefit of our financial investment in such operations.**

We face risks associated with integrating our financial services business into our existing operations, including further development of information technology and financial reporting systems. In addition, a newly opened financial services location generally does not attain positive cash flow during its first year of operations. Also, the financial services industry is highly competitive and regulated by federal, state and local laws.

Our expansion into the financial services business could place a significant demand on our management and our financial and operational resources. If we are unable to effectively implement our financial services business, we may not realize the operational benefits of our investment in the financial services business that we currently expect.

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**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 one additional state 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, the Anti-Money Laundering Act, and similar state laws. In addition, we are subject to various state regulations regarding the terms of our short term consumer loans and our policies, procedures and operations relating to those loans, including the fees we may charge, as well as fees we may charge in connection with our other financial services products. The failure to comply with such regulations may result in the imposition of material fines, penalties, or injunctions. Congress and/or the various legislatures in the states where we currently operate or 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.

**We may be subject to legal proceedings from time to time which seek 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.**

In our history, we have defended class action lawsuits alleging various regulatory violations and have paid material amounts to settle such claims. We cannot assure you that we will not be the subject of similar lawsuits in the future. 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



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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 at that time 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 Rent-A-Center's Board of Directors. As of December 31, 2008, \$721.7 million was outstanding under our senior debt.

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-A-Center's organizational documents and our debt instruments contain provisions that may prevent or deter another group from paying a premium over the market price to Rent-A-Center's stockholders to acquire its stock.**

Rent-A-Center's organizational documents contain provisions that classify its Board of Directors, authorize its Board of Directors to issue blank check preferred stock and establish advance notice requirements on its stockholders for director nominations and actions to be taken at meetings of the stockholders. In addition, as a Delaware corporation, Rent-A-Center is 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 Rent-A-Center's common stock that some or a majority of Rent-A-Center's stockholders might consider to be in their best interests.

**Rent-A-Center is a holding company and is dependent on the operations and funds of its subsidiaries.**

Rent-A-Center is a holding company, with no revenue generating operations and no assets other than its ownership interests in its direct and indirect subsidiaries. Accordingly, Rent-A-Center is dependent on the cash flow generated by its direct and indirect operating subsidiaries and must rely on dividends or other intercompany

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transfers from its operating subsidiaries to generate the funds necessary to meet its obligations, including the obligations under the senior credit facilities and the outstanding subordinated notes. The ability of Rent-A-Center's subsidiaries to pay dividends or make other payments to it is subject to applicable state laws. Should one or more of Rent-A-Center's subsidiaries be unable to pay dividends or make distributions, its ability to meet its 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; and

the stock price performance of comparable companies.

In addition, the stock market as a whole has experienced extreme price and volume fluctuations that have affected the market price of many specialty retailers in ways that may have been unrelated to these companies' operating performance.

**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.

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 regional offices, under operating leases expiring at various times through 2016. Most of our store leases are five year leases and contain renewal options for additional periods ranging from three to five years at rental rates adjusted according to agreed-upon formulas. Store sizes range from approximately 1,900 to 24,000 square feet, and average approximately 4,700 square feet. Approximately 75% of each store's space is generally used for showroom space and 25% for offices and storage space.

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We own the land and building at 5501 Headquarters Drive, Plano, Texas, in which our corporate headquarters are located. The land and improvements are pledged as collateral under our senior credit facilities.

We believe 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.

**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 Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* ( SFAS No. 5 ) and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss – An Interpretation of FASB Statement No. 5* ( FIN 14 ), which require that we accrue for losses that are both probable and reasonably estimable. We expense legal fees and expenses incurred in connection with the defense of all of our litigation at the time such amounts are invoiced or otherwise made known to us.

As of December 31, 2008, we had accrued \$11.3 million relating to probable losses for our outstanding litigation as follows (in millions):

<i>Shafer/Johnson Matter</i>	\$ 1.8
<i>California Attorney General Settlement</i>	9.4
<i>Other Litigation</i>	0.1
<b>Total Accrual</b>	<b>\$ 11.3</b>

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.

*California Attorney General Inquiry.* In January 2009, we paid \$9.4 million in accordance with the settlement with the California Attorney General.

*Eric Shafer, et al. v. Rent-A-Center, Inc.* We recorded a pre-tax expense of \$11.0 million in the fourth quarter of 2007 related to the settlement of the *Eric Shafer et al. v. Rent-A-Center, Inc.* and *Victor E. Johnson et al. v. Rent-A-Center, Inc.*, coordinated matters pending in state court in Los Angeles, California. Due to fewer class members eligible to participate in the settlement than originally estimated, as well as negotiated reductions in settlement payments to certain plaintiffs, the maximum claim amount remaining to be paid was reduced by approximately \$2.4 million during the fourth quarter of 2008. We also paid settlement costs and plaintiffs' attorneys' fees in the amount of approximately \$4.4 million, and settlement payments in the aggregate amount of approximately \$2.4 million during the fourth quarter of 2008. We expect to fund the maximum remaining settlement payments of approximately \$1.8 million during 2009.

In our history, we have defended class action lawsuits alleging various regulatory violations and have paid material amounts to settle such claims. We cannot assure you that we will not be the subject of similar lawsuits in the future.

**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<sup>®</sup> 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.

<b>2008</b>	<b>High</b>	<b>Low</b>
Fourth Quarter	\$ 22.68	\$ 9.97
Third Quarter	26.00	18.60
Second Quarter	23.20	17.07
First Quarter	20.22	11.67
<b>2007</b>	<b>High</b>	<b>Low</b>
Fourth Quarter	\$ 18.59	\$ 13.17
Third Quarter	27.06	16.85
Second Quarter	29.01	25.90
First Quarter	31.09	26.32

As of February 20, 2009, there were approximately 51 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 35 of this report for further discussion of such restrictions.

Under our common stock repurchase program, we are authorized to repurchase up to \$500.0 million in aggregate purchase price of our common stock. As of December 31, 2008, we had repurchased a total of 19,412,750 shares of Rent-A-Center common stock for an aggregate of \$457.8 million under our common stock repurchase program. For the year ended December 31, 2008, we repurchased 951,800 shares of our common stock for an aggregate purchase price of \$13.4 million. In the fourth quarter of 2008, we effected the following repurchases of our common stock:

<b>Total Number of</b>	<b>Maximum Dollar Value that May Yet</b>
------------------------	--

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share (Including Fees)</b>	<b>Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Be Purchased Under the Plans or Programs (Including Fees)</b>
October 1 through October 31	150,000	\$ 14.0456	150,000	\$ 50,422,839
November 1 through November 30	651,800	\$ 12.5574	651,800	\$ 42,237,933
December 1 through December 31				
<b>Total</b>	<b>801,800</b>	<b>\$ 12.8358</b>	<b>801,800</b>	<b>\$ 42,237,933</b>



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**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 a peer group index selected by us. The peer group index consists of Aaron Rents, Inc., Family Dollar Stores, Inc., 99¢ Only Stores, Dollar Tree Stores, Inc., Dollar Financial Corp., Advance America, Cash Advance Centers, Inc., EZCORP, Inc., and Cash America International, Inc. The graph assumes \$100 was invested on December 31, 2003 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, 2008 have been derived from our consolidated financial statements as audited by Grant Thornton LLP, independent registered public accounting firm. 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.

	2008	Year Ended December 31,			2004
		2007	2006	2005	
<b>(In thousands, except per share data)</b>					
<b>Consolidated Statements of Earnings</b>					
Revenues					
Store					
Rentals and fees	\$ 2,505,268	\$ 2,594,061	\$ 2,174,239 <sup>(7)</sup>	\$ 2,084,757	\$ 2,071,866
Merchandise sales	256,731	208,989	175,954	177,292	166,594
Installment sales	41,193	34,576	26,877	26,139	24,304
Other	42,759	25,482	15,607	7,903	3,568
Franchise					
Merchandise sales	33,283	34,229	36,377	37,794	41,398
Royalty income and fees	4,938	8,784 <sup>(4)</sup>	4,854	5,222	5,525
Total revenue	2,884,172	2,906,121	2,433,908	2,339,107	2,313,255
Operating expenses					
Direct store expenses					
Cost of rentals and fees	572,900	574,013	476,462 <sup>(7)</sup>	452,583	450,035
Cost of merchandise sold	194,595	156,503	131,428	129,624	119,098
Cost of installment sales	16,620	13,270	11,346	10,889	10,512
Salaries and other expenses	1,651,805	1,684,965	1,385,437 <sup>(8)</sup>	1,358,760 <sup>(11)</sup>	1,277,926
Franchise cost of merchandise sold	31,705	32,733	34,862	36,319	39,472
	2,467,625	2,461,484	2,039,535	1,988,175	1,897,043
General and administrative expenses					
Amortization and write-down of intangibles	16,637	15,734	5,573	11,705 <sup>(12)</sup>	10,780
Litigation expense (credit)	(4,607) <sup>(1)</sup>	62,250 <sup>(5)</sup>	73,300 <sup>(9)</sup>	(8,000) <sup>(13)</sup>	47,000 <sup>(16)</sup>
Restructuring charge	4,497 <sup>(2)</sup>	38,713 <sup>(6)</sup>		15,166 <sup>(14)</sup>	

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Total operating expenses	2,609,784	2,701,884	2,211,964	2,089,336	2,030,304
Operating profit	274,388	204,237	221,944	249,771	282,951
Income from sale of charged off accounts					(7,924) <sup>(17)</sup>
Finance charges from refinancing			4,803 <sup>(10)</sup>		4,173
Gain on extinguishment of debt	(4,335) <sup>(3)</sup>				
Interest expense, net	57,381	87,951	53,003	40,703	35,323
Earnings before income taxes	221,342	116,286	164,138	209,068	251,379
Income tax expense	81,718	40,018	61,046	73,330 <sup>(15)</sup>	95,524

**Table of Contents****Item 6. Selected Financial Data Continued**

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands, except per share data)				
NET EARNINGS	\$ 139,624	\$ 76,268	\$ 103,092	\$ 135,738	\$ 155,855
Basic earnings per common share	\$ 2.10	\$ 1.11	\$ 1.48	\$ 1.86	\$ 1.99
Diluted earnings per common share	\$ 2.08	\$ 1.10	\$ 1.46	\$ 1.83	\$ 1.94

**Consolidated Balance Sheet Data**

Rental merchandise, net	\$ 819,054	\$ 937,970	\$ 1,056,233 <sup>(18)</sup>	\$ 750,680	\$ 759,111
Intangible assets, net	1,266,953	1,269,094	1,281,597	929,326	922,404
Total assets	2,496,702	2,626,943	2,740,956 <sup>(18)</sup>	1,948,664	1,967,788
Total debt	947,087	1,259,335	1,293,278	724,050	708,250
Total liabilities <sup>(19)</sup>	1,417,500	1,679,852	1,797,997 <sup>(18)</sup>	1,125,232	1,173,517
Stockholders equity	1,079,202	947,091	942,959 <sup>(18)</sup>	823,432	794,271

**Operating Data (Unaudited)**

Stores open at end of period	3,037	3,081	3,406	2,760	2,875
Comparable store revenue growth (decrease) <sup>(20)</sup>	2.3%	2.1%	1.9%	(2.3)%	(3.6)%
Weighted average number of stores	3,056	3,376	2,848	2,844	2,788
Franchise stores open at end of period	222	227	282	296	313

- (1) Includes the effects of a \$4.6 million in pre-tax litigation credits recorded in the fourth quarter of 2008 related to the *Perez* matter and the *Shafer/Johnson* matter
- (2) Includes the effects of a \$4.5 million pre-tax restructuring expense as part of the store consolidation plan and other restructuring items announced December 3, 2007.
- (3) Includes the effects of a \$4.3 million pre-tax gain on the extinguishment of debt recorded in the fourth quarter of 2008.
- (4) Includes the effects of a \$3.9 million pre-tax benefit recorded in the third quarter of 2007 as a result of the receipt of accelerated royalty payments from franchisees in consideration of the termination of their franchise agreements.
- (5) Includes the effects of a \$51.3 million pre-tax litigation expense recorded in the first quarter of 2007 related to the *Perez* matter and the effects of an \$11.0 million pre-tax litigation expense recorded in the fourth quarter of

2007 related to the *Shafer/Johnson* matter.

- (6) Includes the effects of a \$38.7 million pre-tax restructuring expense recorded in the fourth quarter of 2007 related to the store consolidation plan and other restructuring items announced December 3, 2007.
- (7) Includes the effects of adopting SAB 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ( SAB 108 ), 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.
- (8) Includes the effects of adopting SFAS 123R, *Share-Based Payment* ( SFAS 123R ), of approximately \$7.8 million of pre-tax expense related to stock options and restricted stock units granted.
- (9) 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.
- (10) 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.
- (11) 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.
- (12) Includes the effects of \$3.7 million in goodwill impairment charges recorded in the third quarter of 2005 as result of Hurricane Katrina.
- (13) 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.

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- (14) Includes the effects of a \$15.2 million pre-tax restructuring expense as part of the store consolidation plan announced September 6, 2005.
- (15) 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.
- (16) 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.
- (17) Includes the effects of \$7.9 million in pre-tax income associated with the 2004 sale of previously charged off accounts.
- (18) Includes the effects of adopting SAB 108 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.
- (19) In accordance with the adoption of SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* ( SFAS 150 ), total liabilities also includes redeemable convertible voting preferred stock for the years ended December 31, 2002 through December 31, 2005.
- (20) Comparable store revenue growth for each period presented includes revenues only of stores open throughout the full period and the comparable prior period.

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

**Overview**

We are the largest operator in the United States rent-to-own industry with an approximate 38% market share based on store count. At December 31, 2008, we operated 3,037 company-owned stores nationwide and in Canada and Puerto Rico, including 31 retail installment sales stores under the names Get It Now and Home Choice and eight rent-to-own stores located in Canada under the name Rent-A-Centre. Our subsidiary, ColorTyme, is a national franchisor of rent-to-own stores. At December 31, 2008, ColorTyme had 222 franchised rent-to-own stores in 34 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. The rental purchase transaction is a flexible alternative for consumers to obtain use and enjoyment of brand name merchandise without incurring debt.

Key features of the rental purchase transaction include:

convenient payment options in-store or over the phone;

no long-term obligations;

right to terminate without penalty;

no requirement of a credit history;

set-up and delivery included at no additional charge;

product maintenance;

lifetime reinstatement; and

flexible options to obtain ownership 90 days same as cash, early purchase options, or payment through the term of the agreement.

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.

From 1993 to 2006, we pursued an aggressive growth strategy in which we 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.



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We also offer financial services products, such as short term secured and unsecured loans, debit cards, check cashing, tax preparation and money transfer services, in some of our existing rent-to-own stores under the trade names RAC Financial Services and Cash AdvantEdge. As of December 31, 2008, we offered some or all of these financial services products in 351 Rent-A-Center store locations in 18 states. We intend to focus our resources on improving the operations in these existing financial services store locations and do not plan to add significantly to the number of Rent-A-Center store locations offering financial services at this time. There can be no assurance that we will be successful in our efforts to improve and expand our financial services operations or that such operations, should they be added, will prove to be profitable.

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.

## **Forward-Looking Statements**

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

- uncertainties regarding the ability to open new rent-to-own stores;
- our ability to acquire additional rent-to-own stores or customer accounts on favorable terms;
- our ability to control costs and increase profitability;
- our ability to successfully add financial services locations within our existing rent-to-own stores;
- 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;
- our ability to retain the revenue associated with acquired customer accounts;
- 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;
- our failure to comply with statutes or regulations governing the rent-to-own or financial services industries;
- interest rates;

increases in the unemployment rate;

economic pressures, such as high fuel and utility costs, affecting the disposable income available to our targeted consumers;

changes in our stock price and the number of shares of common stock that we may or may not repurchase;

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;

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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 any material litigation; and

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

Additional important factors that could cause our actual results to differ materially from our expectations are discussed under 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 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.

We continually institute procedures to manage our loss exposure and increases in health care costs associated with our insurance claims 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, company specific development factors, general industry loss development factors, and third party claim administrator loss estimates which are based on known facts surrounding individual claims. These assumptions incorporate expected increases in health care costs. Periodically, we reevaluate our estimate of liability within our self-insured retentions. 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.

As of December 31, 2008, the amount accrued for losses within our self-insured retentions with respect to workers compensation, general liability and auto liability insurance was \$117.9 million, as compared to \$109.5 million at December 31, 2007. 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. Historically, our litigation has involved lawsuits alleging various regulatory violations. In preparing our financial statements at a given point in time, we account for loss 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.

Each quarter, we make estimates of our probable losses, 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

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related to these legal matters and, when appropriate, adjustments are made to reflect current facts and circumstances. We expense legal fees and expenses incurred in connection with the defense of all of our litigation at the time such amounts are invoiced or otherwise made known to us.

Our accruals relating to probable losses for our outstanding litigation follow:

	<b>Year Ended December 31, 2008      2007 (In millions)</b>	
<i>Shafer/Johnson Matter</i>	\$ 1.8	\$ 11.0
<i>California Attorney General Settlement</i>	9.4	9.6
<i>Other Litigation</i>	0.1	1.1
<i>Legal Fees and Expenses</i>		0.2
<b>Total Accrual</b>	<b>\$ 11.3</b>	<b>\$ 21.9</b>

As with most litigation, the ultimate outcome of our pending litigation is uncertain. Additional developments in our litigation or other adverse or positive developments or rulings in our litigation could affect our assumptions and, thus, our accrual. 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;
- 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;
- 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.

*Income Taxes.* Our annual tax rate is affected by many factors, including the mix of our earnings, legislation and acquisitions, and is based on our income, statutory tax rates and tax planning opportunities available to us in the jurisdictions in which we operate. Tax laws are complex and subject to differing interpretations between the taxpayer and the taxing authorities. Significant judgment is required in determining our tax expense, evaluating our tax positions and evaluating uncertainties under FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* — an interpretation of FASB Statement No. 109 ( FIN 48 ). As required by FIN 48, which we adopted January 1, 2007, we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon the ultimate settlement with the relevant tax authority. We review our tax positions quarterly and adjust the balance as new information becomes available.

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Prior to 2007, we estimated our liabilities for income tax exposure by evaluating our income tax exposure 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 evaluated 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 was based on an evaluation of the underlying facts and circumstances, a thorough analysis of the technical merits of our tax positions taken, and an assessment of the chances of us prevailing in our tax positions taken.

If we make changes to our accruals with respect to our self-insurance liabilities, or litigation or income tax reserves 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.* We account for stock-based compensation expense under Statement of Financial Accounting Standards No. 123, *Share-Based Payment* ( SFAS 123R ), and recognize share-based payment awards to our employees and directors 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 granted during the twelve months ended December 31, 2008 were valued using the binomial method pricing model with the following assumptions for employee options: expected volatility of 33.85% to 53.58%, a risk-free interest rate of 1.62% to 3.17%, no dividend yield, and an expected life of 4.20 years. For non-employee director options, the stock options granted during the twelve months ended December 31, 2008 were valued using the binomial method pricing model with the following assumptions: expected volatility of 41.26%, a risk-free interest rate of 3.54%, no dividend yield, and an expected life of 6.90 years. During the twelve months ended December 31, 2008, we recognized \$3.3 million in pre-tax compensation expense related to stock options and restricted stock units granted.

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

## **Significant Accounting Policies**

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

*Revenue.* Merchandise is rented to customers pursuant to rental purchase agreements which provide for weekly, semi-monthly or monthly rental terms with non-refundable rental payments. Generally, the customer has the right to acquire title either through a purchase option or through payment of all required rentals. Rental revenue and fees are recognized over the rental term and merchandise sales revenue is recognized when the customer exercises the purchase option and pays the cash price due. Cash received prior to the period in which it should be recognized is deferred and recognized according to the rental term. Revenue is accrued for uncollected amounts due based on historical collection experience. However, the total amount of the rental purchase agreement is not accrued because the customer can terminate the rental agreement at any time and we cannot enforce collection for non-payment of

future rents.

Revenue from the sale of merchandise in our retail installment stores is recognized when the installment note is signed, the customer has taken possession of the merchandise and collectability is reasonably assured.



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The revenue from our financial services is recorded depending on the type of transaction. Fees collected on loans are recognized ratably over the term of the loan. For money orders, wire transfers, check cashing and other customer service type transactions, fee revenue is recognized at the time the service is performed.

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

*Depreciation of Rental Merchandise.* Depreciation of rental merchandise is included in the cost of rentals and fees on our statement of earnings. We depreciate our rental merchandise using the income forecasting method. Under the income forecasting method, merchandise held for rent is not depreciated and merchandise on rent is depreciated in the proportion of rents received to total rents provided in the rental contract, which is an activity-based method similar to the units of production method. On computers that are 24 months old or older and which have become idle, depreciation is recognized using the straight-line method for a period of at least six months, generally not to exceed an aggregate depreciation period of 30 months.

*Cost of Merchandise Sold.* Cost of merchandise sold represents the net book value of rental merchandise at time of sale. Cost of merchandise sold also includes the cost of services offered by us, such as prepaid telephone and electric services.

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

*General and Administrative Expenses.* General and administrative expenses include all corporate overhead expenses related to our headquarters such as salaries, taxes and benefits, occupancy, administrative and other operating expenses.

**Table of Contents****Results of Operations**

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

	<b>Year Ended December 31,</b>			<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(Company-owned stores only)</b>			<b>(Franchise operations only)</b>		
<b>Revenues</b>						
Rentals and fees	88.0%	90.6%	90.9%	%	%	%
Merchandise sales	10.5	8.5	8.5	87.1	79.6	88.2
Other/Royalty income and fees	1.5	0.9	0.6	12.9	20.4	11.8
	100.0%	100.0%	100.			