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THE CENTER FOR STRATEGIC AND POLITICAL ANALYSIS -A-CENTER 2010 ANNUAL REPORT

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Washington, DC 20549

A ROADMAP FOR GROWING POLITICAL PATIENCE



LETTERS TO OUR STOCKHOLDERS

Although 2010 ended on an encouraging note, the economy took all of us for a ride. Punctuated by Europe's debt crisis, the Dow's 1,000-point plunge and Wall Street's regulatory overhaul, the year's journey was more "rollercoaster ride" than "Sunday drive." By its close, the year gave us the passage of landmark health-care legislation; an extension of the Bush-era tax cuts, and the Federal Reserve's pledge to purchase approximately \$900 billion of government bonds to rescue the economy from its doldrums.

Through it all our business thrived, validating the heightened relevance of our rent-to-own proposition in today's uncertain economy and readying us for the compelling growth initiatives that lie ahead.

Last year's letter outlined an ambitious road map to strengthen our store operations, revenue and profitability, with an eye towards the continued enhancement of our balance sheet and the opportunistic repurchase of our common stock. The plan called for focusing on each customer's in-store experience, while vigorously controlling costs and strengthening our value proposition through strategic merchandise purchases. Technological and process enhancements figured prominently, along with the establishment of additional distribution channels for our products and services.

Looking back, that road map served us well. Net earnings per diluted share for the twelve months ended December 31, 2010, were \$2.60, including charges of \$0.21 related to refinancing and the divestiture of our financial services business. The Company's 2010 operating profit margin was 11.8% (excluding the divestiture charge), as compared to 10.8% in 2009, an improvement of 1.0%. This improvement was primarily the result of the Company's continued focus on cost controls which yielded historically low customer losses of 2.3% of store revenue. Consumer demand remained strong in 2010 with our total deliveries exceeding our 2009 deliveries. As a result of our strong operating results, we generated positive cash flow from operations of \$216.5 million. This enabled us to return value to our stockholders with the initiation of our first quarterly dividend, declaring dividends of \$0.06 per share in the third and fourth quarters, as well as the repurchase of 3.6 million shares of our common stock. We also maintained a solid balance sheet and realized additional financial flexibility with the issuance of \$300 million in senior unsecured notes.

The only deviation from last year's stated plan was the decision to divest ourselves of our financial services business, an action that we expect to be completed in the first half of 2011. This move shifts resources towards

emerging growth initiatives more closely aligned with our operating strength. Chief among them: Our first foray into Mexico, our continued expansion in Canada, and our recent acquisition of The Rental Store, Inc., a provider of consumer rental purchase agreements through kiosks at third-party retail outlets.

Acquiring The Rental Store, Inc. was central to the expansion of the RAC Acceptance business model which yielded solid results in 2010. Buoyed by the acquisition of nearly 160 locations, as well as our launching of an additional 160 strategically placed kiosks, our RAC Acceptance business saw explosive growth in 2010.

On the international front, Rent-A-Center's Mexico launch during the fourth quarter of 2010, though in its infancy, is showing promise. Consumers there responded rapidly and favorably to our unique value proposition, a concept entirely new to this market. Early results quickly outpaced our initial projections.

In November we communicated short- and long-term growth plans and targets to the investment community. Dubbed "A Road Map for Growth," the message is unchanged:

- We are focused on growing the revenue and profitability of our core rent-to-own business, opening or acquiring more stores in the U.S., expanding abroad and developing complementary lines of business.
- In Mexico, with a market potential of 1,000-plus stores, we expect to open 40 to 75 stores in 2011, and reach approximately 300 stores by 2014. In Canada, with a market potential of 200 to 300 stores, we expect to see 10 to 20 new stores in 2011, with a total store count of approximately 150 by 2014.
- RAC Acceptance, with significant market potential, is projected to reach approximately 1,000 locations by 2014, with 275 to 325 locations opening in 2011.
- We will continue to invest in technology in an effort to continue to improve the top line and drive additional efficiencies. In 2010, we rolled out a state-of-the-art centralized purchasing system that not only kept our stores well stocked, but also improved the product mix by increasing our new products by approximately 25%. Additionally, we enhanced our electronic procurement tools for all non-merchandise categories of supplies and services providing greater visibility and control over these expenses, and heightened opportunity to leverage our buying power. Technology in the pipeline includes an enhanced point-of-sale system which will provide visibility and efficiency in all aspects of our store operations, a customer relationship management system, and a software tool for managing price and promotion processes.
- Through 2014, our average revenue growth rate target is 4% to 6%, with EBITDA growth of 6% to 7% and annual free cash flow generation of \$165 to \$225 million. Our capital allocation philosophy continues to center on reinvesting for future growth while enhancing shareholder value through the payment of dividends and stock repurchases.

We'd like to close by extending our heartfelt gratitude to our dedicated family of co-workers, our customers, stockholders, vendors, and directors.



MARK E. SPEESE
Chairman of the Board
and Chief Executive Officer



MITCHELL E. FADEL
President and Chief Operating Officer

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, 2010

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:

Title of Each Class

Name of Exchange on Which Registered

Common Stock, par value \$0.01 per share

The Nasdaq Global Select Market, Inc.

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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, or 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

Aggregate market value of the 64,213,781 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, 2010 **\$1,300,971,203**
Number of shares of Common Stock outstanding as of the close of business on February 18, 2011: .. **63,518,982**

Documents incorporated by reference:

Portions of the definitive proxy statement relating to the 2011 Annual Meeting of Stockholders of Rent-A-Center, Inc. are incorporated by reference into Part III of this report.

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2010 FORM 10-K

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 35% market share based on store count. At December 31, 2010, we operated 3,008 company-owned stores nationwide and in Canada, Puerto Rico and Mexico, including 42 retail installment sales stores under the names "Get It Now" and "Home Choice," and 18 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, 2010, ColorTyme had 209 franchised rent-to-own stores in 32 states. These franchise stores represent an additional 2% market share based on store count.

As part of our current growth strategy, we are focused on seeking additional distribution channels for our products and services. We operate kiosk locations under the "RAC Acceptance" model which offers the rent-to-own transaction to consumers who do not qualify for financing from the traditional retailer. These kiosks are located within such retailer's store locations. At December 31, 2010, we operated 384 RAC Acceptance locations.

In addition, we are expanding our operations in Canada and Mexico and seeking to identify other international markets in which we believe our products and services would be in demand. At December 31, 2010, we operated 18 stores in Canada and five stores in Mexico.

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:
 - weekly, semi-monthly or monthly;
 - in-store, over the phone or online;
- no long-term obligations;
- right to terminate without penalty;
- no requirement of a credit history;
- delivery and set-up;
- 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, Dell, Acer and Compaq computers and Ashley, England, Standard, Albany 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 74% of our business is from repeat customers.

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. 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 Securities and Exchange Commission (“SEC”). Additionally, we provide electronic or paper copies of our filings free of charge upon request.

Industry Overview

According to the Association of Progressive Rental Organizations (“APRO”), the rent-to-own industry in the United States and Canada consists of approximately 8,600 stores and serves approximately 4.1 million households. We estimate that the two largest rent-to-own industry participants account for approximately 4,900 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 APRO, approximately 83% 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. We believe the number of consumers lacking access to credit is increasing. According to a report issued by the Fair Isaac Corporation on July 13, 2010, consumers in the “subprime” category (those with credit scores below 650) made up 35% of the United States population.

According to the latest available United States Federal Trade Commission study dated April 2000, 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.”

Locations

Since March 1993, the number of our locations has grown from 27 to 3,392 at December 31, 2010, primarily through acquisitions. During this period, we acquired over 3,300 stores, including approximately 400 of our franchised stores. These acquisitions occurred in approximately 280 separate transactions, including 11 transactions where we acquired in excess of 50 locations. 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.

As part of our current growth strategy, we are focused on seeking additional distribution channels for our products and services and are expanding our presence in third-party retailers through our RAC Acceptance initiative, as well as opening new stores in Canada and Mexico.

The following table summarizes our locations allocated among rent-to-own stores, RAC Acceptance kiosk locations, Get It Now/Home Choice retail locations, Canada and Mexico as of December 31, 2010:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Rent-to-own stores	2,943	2,950	2,998
RAC Acceptance kiosk locations	384	82	56
Get It Now/Home Choice retail locations	42	39	31
Canada	18	18	8
Mexico	<u>5</u>	<u>—</u>	<u>—</u>
Total locations	<u>3,392</u>	<u>3,089</u>	<u>3,093</u>

Future 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 and kiosks 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. Periodically, we 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, 2010, we operated 3,008 stores nationwide and in Canada, Puerto Rico and Mexico, and 384 RAC Acceptance kiosk locations in 29 states and Puerto Rico. In addition, our subsidiary, ColorTyme, franchised 209 stores in 32 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:

Location	Number of Stores			Location	Number of Stores		
	Company Owned		Franchised		Company Owned		Franchised
	Stores	Kiosks			Stores	Kiosks	
Alabama	59	1	2	Nevada	23	6	—
Alaska	6	—	3	New Hampshire	20	—	1
Arizona	56	18	—	New Jersey	44	—	—
Arkansas	40	11	—	New Mexico	27	2	9
California	142	32	6	New York	176	6	2
Colorado	44	—	—	North Carolina	129	19	12
Connecticut	40	—	1	North Dakota	3	—	—
Delaware	20	—	—	Ohio	172	7	4
District of Columbia	4	—	—	Oklahoma	44	—	5
Florida	167	31	18	Oregon	27	3	4
Georgia	83	22	8	Pennsylvania	153	—	4
Hawaii	11	—	5	Puerto Rico	45	2	—
Idaho	12	1	4	Rhode Island	16	1	3
Illinois	112†	27	8	South Carolina	64	12	2
Indiana	97	6	2	South Dakota	4	—	—
Iowa	27	—	—	Tennessee	86	6	4
Kansas	34	—	7	Texas	284	120	38
Kentucky	62	4	5	Utah	16	1	—
Louisiana	46	14	6	Vermont	9	—	—
Maine	28	—	9	Virginia	68	10	13
Maryland	63	—	9	Washington	45	5	5
Massachusetts	69	1	2	West Virginia	36	4	—
Michigan	105	7	7	Wisconsin	24*	—	—
Minnesota	10*	—	—	Wyoming	7	—	—
Mississippi	37	4	1	Canada	18	—	—
Missouri	66	1	—	Mexico	5	—	—
Montana	9	—	—	TOTAL	3,008	384	209
Nebraska	14	—	—				

* Retail installment stores

† Includes eight retail installment stores

Management Expertise. Our senior management team averages over 20 years of rent-to-own or similar retail experience and has successfully grown our business, including the successful integration of approximately 3,300 stores acquired through approximately 280 acquisition transactions. In addition, our regional and district managers have long tenures with us, and we have a history of promoting management personnel from within. We believe this

extensive industry and integration experience will allow us to capitalize on ongoing consolidation opportunities created by the fragmented nature of the rent-to-own industry.

Financial Strength. Historically, our operations have generated strong cash flow, averaging \$269.1 million in operating cash flow per year since 2001. As a result, we have been able to invest in new business opportunities, including acquisitions, and people, processes and technology, while maintaining a strong balance sheet.

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

- focus on our customer's in-store experience;
- attract customers with targeted advertising campaigns;
- create compelling product values for our customers through the use of strategic merchandise purchases;
- expand the offering of product lines to appeal to more customers to increase the number of transactions and grow our customer base;
- improve operational efficiencies, including through the development and implementation of improved technology; and
- designing compensation programs that focus our operational coworkers on prioritizing store revenue and profit growth.

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. We are currently exploring the following alternatives:

- offering the rent-to-own transaction to consumers who do not qualify for financing from a traditional retailer by maintaining a presence inside such retailer's store locations through our RAC Acceptance program;
- making the rent-to-own transaction more attractive and convenient to consumers by locating kiosks inside destination retailers such as grocers or mass merchandise retailers;
- altering the footprint and product mix for stores in urban locations;
- expanding our retail store operations; and
- expanding our operations in Canada and Mexico and seeking to identify other international markets in which we believe our products and services would be in demand.

There can be no assurance that we will be successful in our efforts to expand our distribution channels, 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 increase revenue and reduce our cost infrastructure through our investments in the following:

- a centralized purchasing system which allows us to better manage our rental merchandise at the store level while expanding availability of the most popular products;
- centralized procurement of all non-merchandise categories of supplies and services, including the development of an on-line procurement tool and a commitment to add dedicated resources at our corporate headquarters to professionally manage our expenses;
- a customer relationship management system which we believe will drive customer relationship decisions with data and information;
- price and promotion software which we believe will improve our ability to match individual customers to specific, tailored product and price offers; and
- an enhanced point of sale system which will provide visibility and efficiency in all aspects of our store operations.

We believe our financial strength allows us to pursue these and other initiatives while also making strategic use of our cash.

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 contributed \$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 and co-workers sign their name on a paper spring egg to hang in our stores. Since 2003, Rent-A-Center has given \$100,000 every year to match the total amount raised by our stores during a four week campaign. To date, we have donated more than \$2 million.
- In 2004, we established the Make A Difference Scholarship which provides \$60,000 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. We have created 20 new RAC Rooms around the country each year since the program's creation. Clubs choose the merchandise they need, including furniture, televisions, electronics and computers.
- We contributed \$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.
- Random Acts of Caring brings unexpected gifts to people and organizations that serve others. Since 2008, the Random Acts of Caring program has provided unexpected donations of merchandise and funding to 64 deserving non-profit organizations. Examples include furnishing rooms in three fire stations in New York and donating \$5,000 to the FDNY Foundation, and providing the Allen County Chapter of the American Red Cross in Lima, Ohio with four desktop computers and two laptops for field work.

- In 2010, we created our RAC Military Program. Rent-A-Center donates merchandise with a wholesale value of \$175,000 to 10 Army garrisons per year. The contributions are allocated to the Family & Morale Welfare and Recreation Program. FMWR provides community and family services, such as the Soldier and Family Assistance Centers that in turn serve wounded, ill and injured soldiers and their families.

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. We continually evaluate store design in an effort to improve our customers’ in-store experience. Stores are remodeled approximately every five years.

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 merchandise 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, 2010, consumer electronic products accounted for approximately 33% of our store rental revenue, furniture and accessories for 32%, appliances for 18% and computers for 17%. Customers may request either new merchandise or previously rented merchandise. Previously rented merchandise is generally offered at the same weekly or monthly rental rate as is offered for new merchandise, but with an opportunity to obtain ownership of the merchandise after fewer rental payments.

Major consumer electronic products offered by our stores include high definition televisions, home theatre systems, video game consoles and stereos from top name-brand manufacturers such as Sony, Philips, LG, Hitachi, Toshiba, Mitsubishi and Microsoft. 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, Dell, Acer and Compaq. 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, Standard, Albany and Klaussner and other top name-brand manufacturers. Accessories include 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 83% 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.

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. Our goal is to have no more than 5.99% of our rental agreements past due one day or more each Saturday evening. For fiscal years 2010, 2009, and 2008, the average week ending past due percentages were 6.90%, 6.50% and 6.38%, respectively. 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.

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 2.3% in 2010 and 2009 and 2.5% in 2008.

Management

We organize our network of stores and kiosks 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 count 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, 2010, we had 484 district managers who, in turn, reported to 73 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 nine division vice presidents located at our corporate headquarters in Plano, Texas. The regional directors receive a significant amount of their compensation based on the revenue and profitability of the stores under their management.

Our executive management team, including our division vice presidents, oversees field operations, with an overall strategic focus. The executive management team directs and coordinates advertising, purchasing, financial planning and controls, employee training, personnel matters, acquisitions and new store initiatives. The centralization and coordination of such operational matters allows our store managers to focus on individual store performance. A significant portion of our executive management compensation is determined by the revenue and 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 that enables us to meet store operating needs while effectively utilizing excess cash. Our system also includes extensive management software, report-generating capabilities and a virtual private network. The virtual private network allows us to communicate with our 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. We are currently investing in the development of new point of sale systems and processes to further enhance our management information system.

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

We utilize a centralized inventory management system that includes automated merchandise replenishment. Our automated replenishment system uses perpetual inventory records to analyze individual store requirements, as well as other pertinent information such as delivery and return forecasts, blanket orders, predetermined inventory levels, and vendor performance, to generate recommended merchandise order information. These recommended orders are reviewed by the store manager and delivered electronically to our vendors. The stores also have online access to determine whether other stores in their market may have merchandise available. All merchandise is shipped by vendors directly to each store, where it is held for rent. We do not utilize any distribution centers in the United States. These systems and procedures allow us to retain tight control over our inventory, improve the diversity and assortment of merchandise in our stores, and assist us in having the right products available at the right time. In addition, these systems require less involvement by our store employees resulting in more time available for customer service and sales activities.

We purchase our rental merchandise from a variety of manufacturers and distributors. In 2010, approximately 14.9% and 12.1%, respectively, of merchandise purchases were attributable to Whirlpool and Ashley. No other brand 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 the success of our operations is dependent on any one or more of our present suppliers.

Marketing

We promote our products and services through television and radio commercials, print advertisements, Internet sites, 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 addition, we promote the "RAC Worry-Free Guarantee®" to further highlight these aspects of the rent-to-own transaction. 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 remained approximately at 2.9% for the years ended December 31, 2010, 2009 and 2008. 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 4,900 of the 8,600 rent-to-own stores in the United States and Canada. We are the largest operator in the rent-to-own industry with 3,008 stores, 384 kiosk locations and 209 franchised locations as of December 31, 2010. Our stores compete with other national, regional and local 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 the 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 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.

RAC Acceptance Kiosk Operations

Through our RAC Acceptance program, we provide an onsite rent-to-own option at a third-party retailer's location. In the event a retail purchase credit application is declined, the customer can be directed to an in-store RAC Acceptance representative who introduces them to the rental purchase transaction. Because the rental purchase transaction does not include the incurrence of debt, no credit check is needed and applicants who meet the basic criteria are generally approved. We believe our RAC Acceptance program is beneficial for both the retail dealers and the consumer. The retail dealers capture more sales because we buy the inventory item directly from them and future rental payments are generally made at the retail dealer. We believe consumers also benefit from our RAC Acceptance program because they are able to obtain the products they want and need without the necessity of credit. As of December 31, 2010, we operated 384 kiosk locations inside approximately 50 furniture and electronics retailers located in 29 states and Puerto Rico. We expect to add approximately 300 kiosk locations during 2011.

Retail Store Operations

As of December 31, 2010, we operated 42 stores utilizing a retail model which generates installment credit sales through a retail sale transaction. Twenty-four of these stores operate under the name "Get It Now" and 18 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, 2010, ColorTyme franchised 209 stores in 32 states. These rent-to-own stores primarily offer high quality durable products such as home electronics, appliances, computers and furniture and accessories. During 2010, 13 new franchise locations were added, nine were sold (all of which we purchased) and five stores closed.

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 agreement also limits 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 12.7% of merchandise purchased by ColorTyme in 2010, 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, 2010, 42 ColorTyme stores operated by 15 separate franchisees offered financial services. Seventeen ColorTyme stores operated by six separate franchisees offered tires and rims exclusively.

Our subsidiary, ColorTyme Finance, Inc., is a party to an agreement with Citibank, N.A., who provides up to \$25.0 million in aggregate financing to qualifying franchisees of ColorTyme. Under the Citibank agreement, upon an event of default by the franchisee under agreements governing this financing and upon the occurrence of certain other events, Citibank can assign the loans and the collateral securing such loans to ColorTyme Finance, with ColorTyme Finance paying or causing to be paid the outstanding debt to Citibank and then succeeding to the rights of Citibank under the debt agreements, including the right to foreclose on the collateral. Rent-A-Center and ColorTyme Finance guarantee the obligations of the franchise borrowers under the Citibank facility. An additional \$20.0 million of financing is provided by Texas Capital Bank, National Association ("Texas Capital Bank") under an agreement similar to the Citibank financing, which is guaranteed by Rent-A-Center East, Inc., a subsidiary of Rent-A-Center. The maximum guarantee obligations under these agreements, excluding the effects of any amounts that could be recovered under collateralization provisions, is \$45.0 million, of which \$17.9 million was outstanding as of December 31, 2010.

ColorTyme has established national advertising funds 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 service marks to its franchisees under the franchise agreement. ColorTyme owns various trademarks and service marks, 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.

Financial Services Operations

On October 25, 2010, we announced that, in connection with an analysis of our available growth initiatives, we were exploring strategic alternatives with respect to our financial services business, including the possible sale or divestiture of such business. As of February 18, 2011, we had ceased making new loans, sold a majority of our customer accounts, and had less than \$5.0 million in remaining loan balance.

Trademarks

We own various trademarks and service marks, including Rent-A-Center®, 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 and Mexico. We believe we hold the necessary rights for protection of the trademarks and service marks essential to our business. The products held for rent in our stores also bear trademarks and service marks held by their respective manufacturers.

Employees

As of February 18, 2011, we had approximately 18,300 employees, of whom 660 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

State Regulation

Currently, 46 states, the District of Columbia and Puerto Rico have legislation that recognize and regulate rental purchase transactions as separate and distinct from credit sales. 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. Ten states limit the total rental payments that can be charged to amounts ranging from 2.0 times to 2.4 times the disclosed cash price or the retail value of the rental product.

Although Minnesota has a rental purchase statute, the rental purchase transaction is also treated as a credit sale subject to consumer lending restrictions pursuant to judicial decision. Therefore, we offer our customers in Minnesota an opportunity to purchase our merchandise through an installment sale transaction in our Home Choice stores. We operate ten Home Choice stores in Minnesota.

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 129 rent-to-own stores and 19 RAC Acceptance locations in North Carolina.

Courts in 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 Wisconsin, we offer our customers an opportunity to purchase our merchandise through an installment sale transaction in our Get It Now stores. In New Jersey, we have modified our typical rental purchase agreements to provide disclosures, grace periods, and pricing that we believe conform with the retail installment sales act. We operate 24 Get It Now stores in Wisconsin and 44 Rent-A-Center stores in New Jersey.

Federal Legislation

To date, no comprehensive federal legislation has been enacted regulating or otherwise impacting the rental purchase transaction. The Dodd-Frank Wall Street Reform and Consumer Protection Act does not regulate leases with terms of 90 days or less. The rent-to-own transaction is for a term of week to week, or at most, month to month. Established federal law deems the term of a lease to be its minimum term regardless of extensions or renewals, if any. 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.

Item 1A. Risk Factors.

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

Future revenue growth depends on our ability to identify and execute new growth strategies.

We have a mature store base. As a result, our same store sales have increased more slowly than in historical periods, or in some cases, decreased. Our future growth will require that we successfully increase revenue in our rent-to-own stores, as well as seek to identify additional distribution channels for our products and services. If we are unable to identify and successfully implement these strategic growth initiatives, our earnings may grow more slowly or even decrease.

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 in our case, regulations specifically regarding rent-to-own transactions. Currently, 46 states, the District of Columbia and Puerto Rico have passed laws that regulate rental purchase transactions as separate and distinct from credit sales. One additional state has a retail installment sales statute that excludes leases, including rent-to-own transactions, from its coverage if the lease provides for more than a nominal purchase price at the end of the rental period. The specific rental purchase 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 ten states limit the total amount that may be charged over the life of a rental purchase agreement and the laws of four states limit the cash prices for which we may offer merchandise. Most states also regulate rental purchase transactions, as well as other consumer transactions, under various consumer protection statutes. The rental purchase statutes and

other consumer protection statutes provide various consumer remedies, including monetary penalties, for violations. In our history, we have been the subject of 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, both favorable and adverse legislation seeking to regulate our business has been introduced in Congress. 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.

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. 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 senior unsecured 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 senior unsecured notes restrict our ability to pay dividends and engage in various operational matters. In addition, covenants under our senior credit facilities require us to maintain specified financial ratios. Our ability to meet these financial ratios may be affected by events beyond our control. These restrictions could limit our ability to obtain future financing, make needed capital expenditures or other investments, repurchase our outstanding debt or equity, pay dividends, 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. 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.

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, 2010, \$401.1 million was outstanding under our senior credit facilities.

Under the indenture governing our outstanding senior unsecured notes, in the event of a change in control, we may be required to offer to purchase all of our outstanding senior unsecured 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 a specified change in control occurs and 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 senior unsecured 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 transfers from its operating subsidiaries to generate the funds necessary to meet its obligations, including the obligations under the senior credit facilities. 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 or when and how many locations we acquire or open;
- 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.

Our continued expansion into international markets presents unique challenges which may subject us to risks associated with the legislative, judicial, accounting, regulatory, political, cultural and economic factors specific to the countries or regions in which we currently operate or may operate in the future, which could adversely affect our financial performance.

We entered the Canadian market in 2004 and operate 18 stores in Canada as of December 31, 2010. We opened our first store in Mexico in October 2010, and now operate five stores in Mexico as of December 31, 2010. As these operations grow, they may require greater management and financial resources. International operations require the integration of personnel with varying cultural and business backgrounds and an understanding of the relevant differences in the cultural, legal and regulatory environments. In addition, these operations are subject to the potential risks of changing economic and financial conditions in each of its markets, legal and regulatory requirements in local jurisdictions, tariffs and trade barriers, difficulties in staffing and managing local operations, failure to understand the local culture and market, difficulties in protecting intellectual property, the burden of complying with foreign laws, including tax laws and financial accounting standards, and adverse local economic, political and social conditions in certain countries.

In addition, we are subject to exchange rate risks in the ordinary course of our business as a result of our operations in Canada and Mexico and are, therefore, exposed to risks associated with the fluctuations of foreign currencies, in particular U.S. dollars, Canadian dollars and Mexican pesos. Such foreign currency exchange rates and fluctuations may have an impact on our future costs or on future cash flows from our international operations, and could adversely affect our financial performance.

Our operations are dependent on effective management information systems. Failure of these systems could negatively impact our ability to manage store operations, which could have a material adverse effect on our business, financial condition and results of operations.

We utilize integrated management information and control systems. The efficient operation of our business is dependent on these systems to effectively manage our financial and operational data. The failure of our information systems to perform as designed, loss of data or any interruption of our information systems for a significant period of time could disrupt our business. If the information systems sustain repeated failures, we may not be able to manage our store operations, which could have a material adverse effect on our business, financial condition and results of operations.

We are currently investing in the development of new point of sale systems and processes to further enhance our management information system. Such enhancements to or replacement of our management information system could have a significant impact on our ability to conduct our core business operations and increase our risk of loss resulting from disruptions of normal operating processes and procedures that may occur during the implementation of new information systems. We can make no assurances that the costs of investments in our information systems will not exceed estimates, that the systems will be implemented without material disruption, or that the systems will be as beneficial as predicted. If any of these events occur, our results of operations could be harmed.

If we fail to protect the integrity and security of customer and co-worker information, we could be exposed to litigation or regulatory enforcement and our business could be adversely impacted.

The increasing costs associated with information security, such as increased investment in technology, the costs of compliance with consumer protection laws, and costs resulting from consumer fraud, could adversely impact our business. We also routinely possess sensitive customer and co-worker information and, while we have taken reasonable and appropriate steps to protect that information, if our security procedures and controls were compromised, it could harm our business, reputation, operating results and financial condition and may increase the costs we incur to protect against such information security breaches.

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 2019. 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 1,200 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.

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.

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.

Item 3. *Legal Proceedings.*

From time to time, we, along with our subsidiaries, are party to various legal proceedings arising in the ordinary course of business. In our history, we have defended class action lawsuits alleging various regulatory violations and have paid material amounts to settle such claims. We accrue for litigation loss contingencies that are both probable and reasonably estimable. Legal fees and expenses associated with the defense of all of our litigation are expensed as such fees and expenses are incurred. As of December 31, 2010, we had no accrual relating to probable losses for our outstanding litigation.

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.

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

None.

PART II

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

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

<u>2010</u>	<u>High</u>	<u>Low</u>	<u>Cash Dividends Declared</u>
Fourth Quarter	\$33.05	\$21.97	\$0.06
Third Quarter	23.44	19.44	0.06
Second Quarter	28.72	20.25	—
First Quarter	24.10	17.23	—
<u>2009</u>	<u>High</u>	<u>Low</u>	<u>Cash Dividends Declared</u>
Fourth Quarter	\$20.92	\$17.49	\$ —
Third Quarter	21.97	16.55	—
Second Quarter	23.14	16.94	—
First Quarter	20.17	14.45	—

As of February 18, 2011, there were approximately 67 record holders of our common stock.

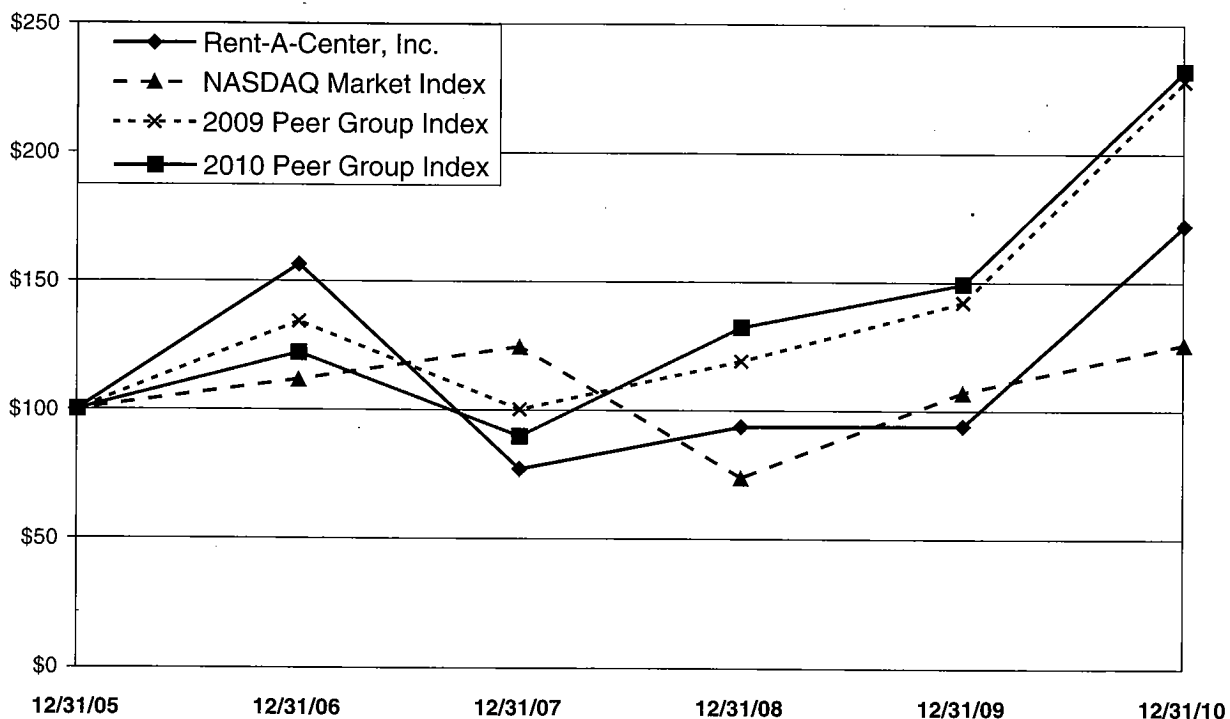
Future decisions to pay cash dividends on our common stock continue to be at the discretion of our Board of Directors and will depend on a number of factors, including future earnings, capital requirements, contractual restrictions, financial condition, future prospects and any other factors our Board of Directors may deem relevant. While cash dividend payments are subject to certain restrictions in our debt agreements, these restrictions do 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*" and "*— 6½% Senior Notes*" on page 32 of this report for further discussion of such restrictions.

Under our common stock repurchase program, we are authorized to repurchase up to \$800.0 million in aggregate purchase price of our common stock. As of December 31, 2010, we had repurchased a total of 23,470,345 shares of Rent-A-Center common stock for an aggregate purchase price of \$551.2 million under our common stock repurchase program. For the year ended December 31, 2010, we repurchased 3,585,495 shares of our common stock for an aggregate purchase price of \$84.6 million. In the fourth quarter of 2010, we effected the following repurchases of our common stock:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share (Including Fees)</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs (Including Fees)</u>
October 1 through October 31				
November 1 through November 30	1,403,993	\$27.5497	1,403,993	\$248,800,518
December 1 through December 31				
Total	1,403,993	\$27.5497	1,403,993	\$248,800,518

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. Due to the discontinuation of our financial services business, we revised our peer group index in 2010 to include companies offering similar products and services as ours, such as rent-to-own and general merchandise retailers that market to our targeted customer demographic. The 2010 peer group index consists of Aaron's, Inc., Family Dollar Stores, Inc., 99¢ Only Stores, Dollar Tree Stores, Inc., and Dollar General Corp. In 2009, the peer group index consisted of Aaron's, 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, 2005 and dividends, if any, were reinvested for all years ending December 31.



Item 6. Selected Financial Data

The selected financial data presented below for the five years ended December 31, 2010 have been derived from our consolidated financial statements as audited by Grant Thornton LLP, an 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.

	Year Ended December 31,				
	2010	2009	2008	2007	2006
(In thousands, except per share data)					
Consolidated Statements of Earnings					
Revenues					
Store					
Rentals and fees	\$2,335,496	\$2,346,849	\$2,505,268	\$2,594,061	\$2,174,239 ⁽¹⁰⁾
Merchandise sales	220,329	261,631	256,731	208,989	175,954
Installment sales	63,833	53,035	41,193	34,576	26,877
Other	76,542	57,601	42,759	25,482	15,607
Franchise					
Merchandise sales	30,575	28,065	33,283	34,229	36,377
Royalty income and fees	4,857	4,775	4,938	8,784 ⁽⁷⁾	4,854
Total revenue	<u>2,731,632</u>	<u>2,751,956</u>	<u>2,884,172</u>	<u>2,906,121</u>	<u>2,433,908</u>
Operating expenses					
Direct store expenses					
Cost of rentals and fees	519,282	530,018	572,900	574,013	476,462 ⁽¹⁰⁾
Cost of merchandise sold	164,133	188,433	194,595	156,503	131,428
Cost of installment sales	23,303	18,687	16,620	13,270	11,346
Salaries and other expenses	1,543,391	1,556,074	1,651,805	1,684,965	1,385,437
Franchise cost of merchandise sold	<u>29,242</u>	<u>26,820</u>	<u>31,705</u>	<u>32,733</u>	<u>34,862</u>
	2,279,351	2,320,032	2,467,625	2,461,484	2,039,535
General and administrative expenses					
	126,319	137,626	125,632	123,703	93,556
Amortization and write-down of intangibles					
	3,254	2,843	16,637	15,734	5,573
Litigation expense (credit)					
	—	(4,869) ⁽³⁾	(4,607) ⁽⁴⁾	62,250 ⁽⁸⁾	73,300 ⁽¹¹⁾
Impairment charge					
	18,939 ⁽¹⁾	—	—	—	—
Restructuring charge					
	—	—	4,497 ⁽⁵⁾	38,713 ⁽⁹⁾	—
Total operating expenses	<u>2,427,863</u>	<u>2,455,632</u>	<u>2,609,784</u>	<u>2,701,884</u>	<u>2,211,964</u>
Operating profit	303,769	296,324	274,388	204,237	221,944
Finance charges from refinancing	3,100 ⁽²⁾	—	—	—	4,803 ⁽¹²⁾
Gain on extinguishment of debt	—	—	(4,335) ⁽⁶⁾	—	—
Interest expense, net	<u>25,912</u>	<u>25,954</u>	<u>57,381</u>	<u>87,951</u>	<u>53,003</u>
Earnings before income taxes	274,757	270,370	221,342	116,286	164,138
Income tax expense	<u>103,115</u>	<u>102,515</u>	<u>81,718</u>	<u>40,018</u>	<u>61,046</u>
NET EARNINGS	<u>\$ 171,642</u>	<u>\$ 167,855</u>	<u>\$ 139,624</u>	<u>\$ 76,268</u>	<u>\$ 103,092</u>
Basic earnings per common share	<u>\$ 2.64</u>	<u>\$ 2.54</u>	<u>\$ 2.10</u>	<u>\$ 1.11</u>	<u>\$ 1.48</u>
Diluted earnings per common share	<u>\$ 2.60</u>	<u>\$ 2.52</u>	<u>\$ 2.08</u>	<u>\$ 1.10</u>	<u>\$ 1.46</u>
Cash dividends per common share	<u>\$ 0.12</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Item 6. Selected Financial Data — Continued

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(In thousands, except per share data)				
Consolidated Balance Sheet Data					
Rental merchandise, net	\$ 836,854	\$ 749,998	\$ 819,054	\$ 937,970	\$1,056,233 ⁽¹³⁾
Intangible assets, net	1,326,091	1,269,457	1,266,953	1,269,094	1,281,597
Total assets	2,688,331	2,443,997	2,496,702	2,626,943	2,740,956 ⁽¹³⁾
Total debt	701,114	711,158	947,087	1,259,335	1,293,278
Total liabilities	1,334,532	1,196,483	1,417,500	1,679,852	1,797,997 ⁽¹³⁾
Stockholders' equity	1,353,799	1,247,514	1,079,202	947,091	942,959 ⁽¹³⁾
Operating Data (Unaudited)					
Stores open at end of period	3,008	3,007	3,037	3,081	3,406
Comparable store revenue growth (decrease) ⁽¹⁴⁾	(0.4)% ⁽¹⁵⁾	(3.5)%	2.3%	2.1%	1.9%
Weighted average number of stores	3,003	3,021	3,056	3,376	2,848
Franchise stores open at end of period	209	210	222	227	282

⁽¹⁾ Includes the effects of an \$18.9 million pre-tax impairment charge in the fourth quarter of 2010 related to the discontinuation of our financial services business.

⁽²⁾ Includes the effects of a \$3.1 million pre-tax financing expense in the fourth quarter of 2010 related to the write-off of unamortized financing costs.

⁽³⁾ Includes the effects of \$4.9 million in pre-tax litigation credits recorded in the first quarter and second quarter of 2009 related to the *Hilda Perez* matter.

⁽⁴⁾ Includes the effects of \$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.

⁽⁵⁾ 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.

⁽⁶⁾ Includes the effects of a \$4.3 million pre-tax gain on the extinguishment of debt recorded in the fourth quarter of 2008.

⁽⁷⁾ 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.

⁽⁸⁾ 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.

⁽⁹⁾ 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.

⁽¹⁰⁾ 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.

⁽¹¹⁾ 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* matter.

⁽¹²⁾ 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.

⁽¹³⁾ 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.

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

⁽¹⁵⁾ Excludes financial services revenue.

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 35% market share based on store count. At December 31, 2010, we operated 3,008 company-owned stores nationwide and in Canada, Puerto Rico and Mexico, including 42 retail installment sales stores under the names "Get It Now" and "Home Choice," and 18 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, 2010, ColorTyme had 209 franchised rent-to-own stores in 32 states. These franchise stores represent an additional 2% market share based on store count.

As part of our current growth strategy, we are focused on seeking additional distribution channels for our products and services. We operate kiosk locations under the "RAC Acceptance" model which offers the rent-to-own transaction to consumers who do not qualify for financing from the traditional retailer. These kiosks are located within such retailer's store locations. At December 31, 2010, we operated 384 RAC Acceptance locations, which included 158 kiosk locations as a result of the acquisition of The Rental Store, Inc.

In addition, we are expanding our operations in Canada and Mexico and seeking to identify other international markets in which we believe our products and services would be in demand. At December 31, 2010, we operated 18 stores in Canada and five stores in Mexico.

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:
 - weekly, semi-monthly or monthly;
 - in-store, over the phone or online;
- no long-term obligations;
- right to terminate without penalty;
- no requirement of a credit history;
- delivery and set-up;
- 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.

Historically, 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. Total financing requirements of a typical new store approximate \$625,000, with roughly 65% of that amount relating to the purchase of rental merchandise inventory. A newly opened rent-to-own store is typically 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 and 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 we will open any new rent-to-own stores in the future, or as to the number, location or profitability thereof.

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

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

- uncertainties regarding 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 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;
- the passage of legislation adversely affecting the rent-to-own industry;
- our failure to comply with statutes or regulations governing the rent-to-own or financial services industries;
- interest rates;
- changes in the unemployment rate;
- economic pressures, such as high fuel and utility costs, affecting the disposable income available to our targeted consumers;
- conditions affecting consumer spending and the impact, depth, and duration of current economic conditions;
- changes in our stock price, the number of shares of common stock that we may or may not repurchase, and future dividends, if any;
- changes in estimates relating to self-insurance liabilities and income tax and litigation reserves;
- changes in our effective tax rate;
- our ability to maintain an effective system of internal controls;
- changes in the number of share-based compensation grants, methods used to value future share-based payments and changes in estimated forfeiture rates with respect to share-based compensation;

- the resolution of our litigation; 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 “*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 vehicle 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 our risk management function, including a transitional duty program for injured workers, ongoing safety and accident prevention training, and various other 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, 2010, the amount accrued for losses within our self-insured retentions with respect to workers’ compensation, general liability and vehicle liability insurance was \$130.3 million, as compared to \$128.8 million at December 31, 2009. 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 liabilities 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 accrue for loss contingencies 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 related to these legal matters and, when appropriate, adjustments are made to reflect current facts and circumstances. Legal fees and expenses associated with the defense of all of our litigation are expensed as such fees and expenses are incurred. As of December 31, 2010 and 2009, we had no accrual relating to probable losses for our outstanding litigation.

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. 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.

If we make changes to our accruals in accordance with the policies described above, our earnings would be impacted. 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.

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.

The revenue from our financial services is recognized 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. Generally, 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. We depreciate merchandise held for rent (except for computers) that is at least 270 days old and held for rent for at least 180 consecutive days using the straight-line method for a period generally not to exceed 20 months.

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.

Salaries and Other Expenses. Salaries and other expenses include all salaries and wages paid to store level employees, together with district managers' salaries, payroll taxes and benefits, and travel, 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, payroll taxes and benefits, occupancy, administrative and other operating expenses.

Stock-Based Compensation Expense. We 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, 2010 were valued using the binomial method pricing model with the following assumptions for employee options: expected volatility of 34.95% to 56.30%, a risk-free interest rate of 0.26% to 2.16%, a dividend yield of 0.80%, and an expected life of 5.48 years. During the twelve months ended December 31, 2010, we recognized \$4.1 million in pre-tax compensation expense related to stock options and restricted stock units granted.

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.

	Year Ended December 31,			Year Ended December 31,		
	2010	2009	2008	2010	2009	2008
	(Company-owned stores only)			(Franchise operations only)		
Revenues						
Rentals and fees	86.6%	86.3%	88.0%	—%	—%	—%
Merchandise sales	10.6	11.6	10.5	86.3	85.5	87.1
Other/Royalty income and fees	2.8	2.1	1.5	13.7	14.5	12.9
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Operating Expenses						
Direct store expenses						
Cost of rentals and fees	19.3%	19.5%	20.1%	—%	—%	—%
Cost of merchandise sold	7.0	7.6	7.5	82.5	81.7	83.0
Salaries and other expenses	<u>57.2</u>	<u>57.2</u>	<u>58.0</u>	—	—	—
	83.5	84.3	85.6	82.5	81.7	83.0
General and administrative expenses	4.7	5.1	4.3	9.4	10.6	10.3
Amortization and write-down of intangibles	0.1	0.1	0.6	—	—	—
Litigation expense (credit)	—	(0.2)	(0.2)	—	—	—
Impairment charge	0.7	—	—	—	—	—
Restructuring charge	—	—	0.2	—	—	—
Total operating expenses	<u>89.0</u>	<u>89.3</u>	<u>90.5</u>	<u>91.9</u>	<u>92.3</u>	<u>93.3</u>
Operating profit	11.0	10.7	9.5	8.1	7.7	6.7
Interest, net and other income	<u>1.1</u>	<u>1.0</u>	<u>1.9</u>	<u>(1.3)</u>	<u>(1.4)</u>	<u>(1.6)</u>
Earnings before income taxes	<u>9.9%</u>	<u>9.7%</u>	<u>7.6%</u>	<u>9.4%</u>	<u>9.1%</u>	<u>8.3%</u>

2010 Overview

Highlights of our operating results for the year ended December 31, 2010 include:

- Increased operating profit by \$7.5 million, or 2.5%.
- Generated \$216.5 million in operating cash flow.
- Repurchased 3,585,495 shares of our common stock for an aggregate purchase price of \$84.6 million.
- Initiated our first quarterly dividend, declaring dividends of \$0.06 per share in the third and fourth quarters.
- Opened five stores in Mexico.
- Exited the financial services business.

Comparison of the Years ended December 31, 2010 and 2009

Store Revenue. Total store revenue decreased by \$22.9 million, or 0.8%, to \$2,696.2 million in 2010 from \$2,719.1 million in 2009. This decrease in total store revenue was primarily the result of the November 2009 divestiture of our subsidiary engaged in the prepaid telecommunications and energy business, which contributed approximately \$50.5 million in merchandise sales in 2009, offset by an increase in installment sales and other revenue.

Same store revenues represent those revenues earned in 2,627 stores that were operated by us for each of the entire twelve month periods ended December 31, 2010 and 2009. Same store revenues decreased by \$9.6 million, or 0.4%, to \$2,262.0 million in 2010 as compared to \$2,271.6 million in 2009. This decrease in same store revenues was primarily attributable to a lower average revenue per agreement in 2010 as compared to 2009.

Franchise Revenue. Total franchise revenue increased by \$2.6 million, or 7.9%, to \$35.4 million in 2010 as compared to \$32.8 million in 2009. This increase was primarily attributable to an increase in the number of products sold to franchisees in 2010 as compared to 2009.

Cost of Rentals and Fees. Cost of rentals and fees consists of depreciation of rental merchandise and the costs associated with our membership programs. Cost of rentals and fees for 2010 decreased by \$10.7 million, or 2.0%, to \$519.3 million as compared to \$530.0 million in 2009. This decrease in cost of rentals and fees was primarily the result of a lower average cost per unit in 2010 as compared to 2009. Cost of rentals and fees expressed as a percentage of store rentals and fees revenue decreased slightly to 22.2% in 2010 as compared to 22.6% in 2009.

Cost of Merchandise Sold. Cost of merchandise sold decreased by \$24.3 million, or 12.9%, to \$164.1 million in 2010 from \$188.4 million in 2009. The gross margin percent of merchandise sales decreased to 25.5% in 2010 from 28.0% in 2009. These decreases were primarily the result of the November 2009 divestiture of our subsidiary engaged in the prepaid telecommunications and energy business.

Salaries and Other Expenses. Salaries and other expenses decreased by \$12.7 million, or 0.8%, to \$1,543.4 million in 2010 as compared to \$1,556.1 million in 2009. This decrease was attributable to a decrease in store level expenses due to our cost control initiatives, primarily in the management of labor expense. Charge offs in our rental stores due to customer stolen merchandise, expressed as a percentage of rental store revenues, remained unchanged at approximately 2.3% in 2010 and 2009. Salaries and other expenses expressed as a percentage of total store revenue remained unchanged at 57.2% in 2010 and 2009.

Franchise Cost of Merchandise Sold. Franchise cost of merchandise sold increased by \$2.4 million, or 9.0%, to \$29.2 million in 2010 as compared to \$26.8 million in 2009. This increase was primarily attributable to an increase in the number of products sold to franchisees in 2010 as compared to 2009.

General and Administrative Expenses. General and administrative expenses decreased by \$11.3 million, or 8.2%, to \$126.3 million in 2010 as compared to \$137.6 million in 2009. This decrease was primarily the result of the November 2009 divestiture of our subsidiary engaged in the prepaid telecommunications and energy business. General and administrative expenses expressed as a percentage of total revenue decreased to 4.6% in 2010 from 5.0% in 2009.

Amortization and Write-Down of Intangibles. Amortization of intangibles increased by \$411,000, or 14.5%, to \$3.3 million in 2010 from \$2.8 million in 2009. This increase was due to the write-down of goodwill associated with stores sold or closed in 2010 as compared to 2009.

Operating Profit. Operating profit increased by \$7.5 million, or 2.5%, to \$303.8 million in 2010 as compared to \$296.3 million in 2009. This increase was primarily attributable to a reduction in expenses, offset by an \$18.9 million impairment charge related to the discontinuation of our financial services business in 2010 as compared to 2009. Operating profit as a percentage of total revenue increased to 11.1% in 2010 from 10.8% for 2009.

Interest Expense. Interest expense remained unchanged at \$26.8 million in 2010 and 2009. Interest expense was not impacted by the increase in our weighted average interest rate to 4.62% in 2010 from 3.37% in 2009 due to a decrease in our outstanding debt in 2010 as compared to 2009.

Income Tax Expense. Income tax expense increased slightly by \$600,000, or 0.6%, to \$103.1 million in 2010 as compared to \$102.5 million in 2009.

Net Earnings. Net earnings increased by \$3.7 million, or 2.3%, to \$171.6 million in 2010 as compared to \$167.9 million in 2009. This increase was primarily attributable to an increase in operating profit, offset by the \$3.1 million financing expense related to the write-off of unamortized financing costs in 2010 as compared to 2009.

Comparison of the Years ended December 31, 2009 and 2008

Store Revenue. Total store revenue decreased by \$126.9 million, or 4.5%, to \$2,719.1 million in 2009 from \$2,846.0 million in 2008. This decrease in total store revenue was primarily the result of a 3.5% reduction in same store sales, predominantly attributable to a decrease in the number of units per customer, together with the impact of the 2007 restructuring plan.

Same store revenues represent those revenues earned in 2,277 stores that were operated by us for each of the entire twelve month periods ended December 31, 2009 and 2008. Same store revenues decreased by \$71.3 million, or 3.5%, to \$1,985.3 million in 2009 as compared to \$2,056.6 million in 2008. This decrease in same store revenues was primarily attributable to a decrease in the number of units per customer in 2009 as compared to 2008.

Franchise Revenue. Total franchise revenue decreased by \$5.4 million, or 14.1%, to \$32.8 million in 2009 as compared to \$38.2 million in 2008. This decrease was primarily attributable to a decrease in the number of products sold to franchisees in 2009 as compared to 2008 due to fewer franchise stores in 2009.

Cost of Rentals and Fees. Cost of rentals and fees consists of depreciation of rental merchandise and the costs associated with our membership programs. Cost of rentals and fees for 2009 decreased by \$42.9 million, or 7.5%, to \$530.0 million as compared to \$572.9 million in 2008. This decrease in cost of rentals and fees is primarily attributable to a decrease in the number of units on rent in 2009 as compared to 2008. Cost of rentals and fees expressed as a percentage of store rentals and fees revenue decreased to 22.6% in 2009 as compared to 22.9% in 2008.

Cost of Merchandise Sold. Cost of merchandise sold decreased by \$6.2 million, or 3.2%, to \$188.4 million in 2009 from \$194.6 million in 2008. The gross margin percent of merchandise sales increased to 28.0% in 2009 from 24.2% in 2008. This percentage increase was primarily attributable to a higher margin on early purchase option transactions during the 2009 period.

Salaries and Other Expenses. Salaries and other expenses decreased by \$95.7 million, or 5.8%, to \$1,556.1 million in 2009 as compared to \$1,651.8 million in 2008. This decrease was primarily attributable to a decrease in store level expenses due to our cost control initiatives such as improvements in management of labor expense, delivery costs and inventory losses. Charge offs in our rental stores due to customer stolen merchandise, expressed as a percentage of rental store revenues, were approximately 2.3% in 2009 as compared to 2.5% in 2008. Salaries and other expenses expressed as a percentage of total store revenue decreased to 57.2% in 2009 from 58.0% in 2008.

Franchise Cost of Merchandise Sold. Franchise cost of merchandise sold decreased by \$4.9 million, or 15.4%, to \$26.8 million in 2009 as compared to \$31.7 million in 2008. This decrease was primarily attributable to a decrease in the number of products sold to franchisees in 2009 as compared to 2008 due to fewer franchise stores in 2009.

General and Administrative Expenses. General and administrative expenses increased by \$12.0 million, or 9.5%, to \$137.6 million in 2009 as compared to \$125.6 million in 2008. General and administrative expenses expressed as a percentage of total revenue increased to 5.0% in 2009 from 4.4% in 2008. These increases are primarily attributable to additional personnel and related expansion at our corporate office to support our strategic initiatives.

Amortization and Write-Down of Intangibles. Amortization of intangibles decreased by \$13.8 million, or 82.9%, to \$2.8 million in 2009 from \$16.6 million in 2008. This decrease was due to intangible assets associated with the acquisition of Rent-Way that were fully amortized in 2009 as compared to 2008.

Operating Profit. Operating profit increased by \$21.9 million, or 8.0%, to \$296.3 million in 2009 as compared to \$274.4 million in 2008. Operating profit as a percentage of total revenue increased to 10.8% in 2009 from 9.5% for 2008. This increase was primarily attributable to a reduction in expenses and an improvement in gross margins offset by lower revenue in the 2009 period as compared to 2008.

Interest Expense. Interest expense decreased by \$39.4 million, or 59.6%, to \$26.8 million in 2009 as compared to \$66.2 million in 2008. This decrease was attributable to a decrease in our outstanding indebtedness in

2009 as compared to 2008, as well as a decrease in our weighted average interest rate to 3.37% in 2009 as compared to 6.21% in 2008 due to a decrease in the Eurodollar rate in 2009 as compared to 2008.

Income Tax Expense. Income tax expense increased by \$20.8 million, or 25.4%, to \$102.5 million in 2009 as compared to \$81.7 million in 2008. This increase is attributable to an increase in earnings before taxes for 2009 as compared to 2008 and an increase in our overall effective tax rate to 37.9% for 2009 as compared to 36.9% for 2008. The 2009 increase in our overall effective tax rate is primarily attributable to an increase in our state effective tax rate as well as certain state tax benefits realized in 2008 related to audit settlements that did not recur in 2009.

Net Earnings. Net earnings increased by \$28.3 million, or 20.2%, to \$167.9 million in 2009 as compared to \$139.6 million in 2008. This increase was primarily attributable to an increase in operating profit and a decrease in interest expense, offset by an increase in income tax expense in 2009 as compared to 2008.

Quarterly Results

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

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
	(In thousands, except per share data)			
Year ended December 31, 2010				
Revenues	\$718,419	\$671,543	\$664,580	\$677,090
Operating profit	88,703	82,831	69,393	62,842
Net earnings	51,461	47,830	40,497	31,854
Basic earnings per common share	\$ 0.78	\$ 0.73	\$ 0.62	\$ 0.50
Diluted earnings per common share	\$ 0.77	\$ 0.72	\$ 0.62	\$ 0.49
Cash dividends per common share	\$ —	\$ —	\$ 0.06	\$ 0.06
Year ended December 31, 2009				
Revenues	\$728,183	\$679,609	\$671,251	\$672,913
Operating profit	82,092	75,283	64,367	74,582
Net earnings	45,376	41,945	36,840	43,694
Basic earnings per common share	\$ 0.69	\$ 0.64	\$ 0.56	\$ 0.66
Diluted earnings per common share	\$ 0.68	\$ 0.63	\$ 0.55	\$ 0.66
Year ended December 31, 2008				
Revenues	\$756,636	\$719,031	\$708,755	\$699,750
Operating profit	77,540	74,434	58,549	63,865
Net earnings	36,358	37,741	29,379	36,146
Basic earnings per common share	\$ 0.55	\$ 0.57	\$ 0.44	\$ 0.54
Diluted earnings per common share	\$ 0.54	\$ 0.56	\$ 0.44	\$ 0.54

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
	(As a percentage of revenues)			
Year ended December 31, 2010				
Revenues	100.0%	100.0%	100.0%	100.0%
Operating profit	12.3	12.3	10.4	9.3
Net earnings	7.2	7.1	6.1	4.7
Year ended December 31, 2009				
Revenues	100.0%	100.0%	100.0%	100.0%
Operating profit	11.3	11.1	9.6	11.1
Net earnings	6.2	6.2	5.5	6.5
Year ended December 31, 2008				
Revenues	100.0%	100.0%	100.0%	100.0%
Operating profit	10.2	10.4	8.3	9.1
Net earnings	4.8	5.2	4.1	5.2

Liquidity and Capital Resources

Overview. For the year ended December 31, 2010, we generated \$216.5 million in operating cash flow. In addition to funding operating expenses, we used \$93.0 million in cash for capital expenditures, \$74.4 million for acquisitions, \$84.6 million for common stock repurchases, and paid cash dividends of \$7.8 million. We ended the year with \$70.7 million in cash and cash equivalents.

Analysis of Cash Flow. Cash provided by operating activities decreased by \$113.6 million to \$216.5 million in 2010 from \$330.1 million in 2009. This decrease is primarily attributable to the use of cash to purchase rental merchandise and the payment of federal estimated income taxes, offset by several noncash items. Rental merchandise purchases increased approximately \$118.6 million as we benefited from increased customer demand and the full implementation of our centralized inventory management system which automates the replenishment of merchandise based on individual store requirements. Prepaid expenses and other assets increased approximately \$114.2 million due to the payment of federal estimated income taxes of approximately \$110.0 million during the first three quarters of 2010 and prior to the enactment of the Small Business Jobs Act of 2010 (the "2010 Jobs Act") and the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the "2010 Tax Relief Act"). This amount is recorded as a receivable in prepaid expenses and other assets. We expect this amount to be refunded to us during 2011, of which \$65.0 million has been received as of February 18, 2011.

Cash used in investing activities increased by \$94.3 million to \$167.2 million in 2010 from \$72.9 million in 2009. This increase is primarily attributable to an increase in acquisitions and capital expenditures in 2010 as compared to 2009.

Cash used in financing activities decreased by \$163.8 million to \$81.3 million in 2010 from \$245.1 million in 2009. This decrease is primarily related to the changes in outstanding debt, offset by the repurchase of common stock in 2010 as compared to 2009.

Liquidity Requirements. Our primary liquidity requirements are for rental merchandise purchases, implementation of our growth strategies, debt service, capital expenditures, and litigation expenses, including settlements or judgments. Our primary sources of liquidity have been cash provided by operations and borrowings. In the future, to provide any additional funds necessary for the continued pursuit of our operating and growth strategies, we may incur from time to time additional short-term or long-term bank indebtedness and may issue, in public or private transactions, equity and debt securities. The availability and attractiveness of any outside sources of financing will depend on a number of factors, some of which relate to our financial condition and performance, and some of which are beyond our control, such as prevailing interest rates and general financing and economic conditions. The global financial markets continue to experience volatility and adverse conditions and such conditions in the capital markets may affect our ability to access additional sources of financing. There can be no assurance that additional financing will be available, or if available, that it will be on terms we find acceptable.

We believe the cash flow generated from operations, together with amounts available under our senior credit facilities, will be sufficient to fund our liquidity requirements as discussed above during the next twelve months. Our revolving credit facilities, including our \$20.0 million line of credit at Intrust Bank, provide us with revolving loans in an aggregate principal amount not exceeding \$395.0 million, of which \$247.6 million was available at February 18, 2011. At February 18, 2011, we had \$96.2 million in cash. To the extent we have available cash that is not necessary to fund the items listed above, we may repurchase additional shares of our common stock, declare and pay dividends on our common stock, or make additional payments to service our existing debt. While our operating cash flow has been strong and we expect this strength to continue, our liquidity could be negatively impacted if we do not remain as profitable as we expect.

A change in control would result in an event of default under our senior credit facilities, which would allow our lenders to accelerate the indebtedness owed to them. In addition, if a change in control occurs, we may be required to offer to repurchase all of our outstanding senior unsecured notes at 101% of their principal amount, plus accrued interest to the date of repurchase. Our senior credit facilities restrict our ability to repurchase the senior unsecured notes, including in the event of a change in control. In the event a change in control occurs, we cannot be sure we would have enough funds to immediately pay our accelerated senior credit facility and senior note obligations or that we would be able to obtain financing to do so on favorable terms, if at all.

Litigation. In our history, we have defended class action lawsuits alleging various regulatory violations and have paid material amounts to settle such claims. Significant settlement amounts or final judgments could materially and adversely affect our liquidity. Please refer to “*Legal Proceedings*” elsewhere in this report.

Deferred Taxes. On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (the “2009 Recovery Act”) which extended the bonus depreciation provision of the 2008 Stimulus Act by continuing the bonus first-year depreciation deduction of 50% of the adjusted basis of qualified property placed in service during 2009. On September 27, 2010, President Obama signed into law the 2010 Jobs Act, which again extended the bonus depreciation provision of the 2009 Recovery Act by continuing the bonus first-year depreciation deduction of 50% of the adjusted basis of qualified property placed in service during 2010. On December 17, 2010, President Obama signed into law the 2010 Tax Relief Act, which enacted 100% bonus depreciation on assets purchased after September 8, 2010 and before January 1, 2012.

Accordingly, our cash flow again benefited in 2010 from having a lower cash tax obligation which, in turn, provided additional cash flow from operations. We estimate that our 2010 operating cash flow increased by approximately \$135.0 million as a result of the 2010 Jobs Act and the 2010 Tax Relief Act, less \$77.0 million associated with the 2009 and 2008 deferral for a total increase of \$58.0 million. We estimate that the remaining tax deferral associated with the 2008 Stimulus Act, the 2009 Recovery Act, the 2010 Jobs Act and the 2010 Tax Relief Act approximates \$163.0 million at December 31, 2010, of which approximately 73%, or \$119.0 million, will reverse in 2011 and the remainder will reverse between 2012 and 2013. We anticipate the \$119.0 million reversal in 2011 will be offset by the expected benefit to operating cash flow of the 2010 Tax Relief Act.

Merchandise Inventory. A reconciliation of merchandise inventory, which includes purchases, follows:

	December 31,		
	2010	2009	2008
	(In thousands)		
Beginning merchandise value	\$ 754,067	\$ 822,487	\$ 940,304
Inventory additions through acquisitions	27,325	1,813	4,890
Purchases	848,004	719,209	730,006
Depreciation of rental merchandise	(506,854)	(519,103)	(561,414)
Cost of goods sold	(187,436)	(173,951)	(175,835)
Skips and stolens	(62,983)	(60,860)	(71,780)
Other inventory deletions ⁽¹⁾	(29,852)	(35,528)	(43,684)
Ending merchandise value	<u>\$ 842,271</u>	<u>\$ 754,067</u>	<u>\$ 822,487</u>

⁽¹⁾ Other inventory deletions include loss/damage waiver claims and unrepairable and missing merchandise, as well as acquisition write-offs.

Capital Expenditures. We make capital expenditures in order to maintain our existing operations as well as for new capital assets in new and acquired stores. We spent \$93.0 million, \$68.8 million and \$61.9 million on capital expenditures in the years 2010, 2009 and 2008, respectively, and expect to spend approximately \$75.0 million in 2011. The increase in capital expenditures for 2010 primarily related to our investment in the development of new point of sale systems and processes designed to further enhance our management information system.

Acquisitions and New Store Openings. During 2010, we used approximately \$74.4 million in cash acquiring stores and accounts in 15 separate transactions. Of this amount, \$71.0 million, net of cash acquired, was funded in connection with the acquisition of The Rental Store, Inc.

The table below summarizes the rent-to-own store activity (excluding RAC Acceptance) for the years ended December 31, 2010, 2009 and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Stores at beginning of period	3,007	3,037	3,081
New store openings	34	40	26
Acquired stores remaining open	3	1	5
Closed stores			
Merged with existing stores	26	59	45
Sold or closed with no surviving store	<u>10</u>	<u>12</u>	<u>30</u>
Stores at end of period	<u>3,008</u>	<u>3,007</u>	<u>3,037</u>
Acquired stores closed and accounts merged with existing stores	14	26	38
Total approximate purchase price of store acquisitions	\$3.4 million	\$7.2 million	\$15.7 million

In addition, during 2010 we added 318 RAC Acceptance kiosk locations, including 158 kiosk locations through the acquisition of The Rental Store, Inc. As of December 31, 2010, we operated 384 RAC acceptance locations.

The profitability of our stores tends to grow at a slower rate approximately five years from entering our system. As a result of the increasing maturity of our store base, in order for us to show improvements in our profitability, it is important for us to open stores in new locations as well as increase revenue in our existing stores. We intend to accomplish such revenue growth by acquiring customer accounts on favorable terms, and seeking additional distribution channels for our products and services. We cannot assure you that we will be able to acquire customer accounts on favorable terms, or at all, or that we will be able to maintain the revenue from any such acquired customer accounts at the rates we expect, or at all. We also cannot assure you that we will be successful in identifying additional distribution channels for our products and services, or that such operations will be as profitable as we expect, or at all.

Senior Credit Facilities. Our senior credit agreement, as amended, provides for a \$1,024 million senior credit facility consisting of a \$165 million term loan with the loans being referred to by us as the “tranche A term loans,” a \$484 million term loan with the loans being referred to by us as the “tranche B term loans,” and a \$375 million revolving credit facility. The tranche A term loans are divided into two equal sub-tranches of \$82.5 million each, referred to by us as the “existing tranche A term loans” and the “extended tranche A term loans.” The existing tranche A term loans mature on June 30, 2011, and the extended tranche A term loans mature on September 30, 2013. The tranche B term loans are divided into two sub-tranches of approximately \$184 million and \$300 million, referred to by us as the “existing tranche B term loans” and the “extended tranche B term loans,” respectively. The existing tranche B term loans mature on June 30, 2012, and the extended tranche B term loans mature on March 31, 2015.

The table below shows the scheduled maturity dates of our senior term loans outstanding at December 31, 2010.

<u>Year Ending December 31,</u>	<u>(In thousands)</u>
2011	\$ 18,750
2012	28,959
2013	48,375
2014	215,625
2015	<u>71,625</u>
	<u>\$383,334</u>

The full amount of the revolving credit facility may be used for the issuance of letters of credit, of which \$137.4 million had been utilized as of February 18, 2011. As of February 18, 2011, \$227.6 million was available under our revolving facility. The revolving credit facility expires September 30, 2013.

Borrowings under our amended senior credit facility accrue interest at varying rates equal to, at our election, either (y) the prime rate plus (i) up to 0.75% in the case of existing tranche A term loans, (ii) 1.5% to 2.0% in the case of revolving loans or extended tranche A term loans, (iii) .75% in the case of existing tranche B term loans, and (iv) 2.0% in the case of extended tranche B term loans; or (z) the Eurodollar rate plus (i) .75% to 1.75% in the case of existing tranche A term loans, (ii) 2.5% to 3.0% in the case of revolving loans or extended tranche A term loans, (iii) 1.75% in the case of existing tranche B term loans, and (iv) 3.0% in the case of extended tranche B term loans. Interest periods range from seven days (for borrowings under the revolving credit facility only) to one, two, three or six months, at our election. The weighted average Eurodollar rate on our outstanding debt was 0.31% at February 18, 2011. The margins on the Eurodollar rate and on the prime rate for revolving loans, existing tranche A term loans, and extended tranche A term loans may fluctuate dependent upon an increase or decrease in our consolidated leverage ratio as defined by a pricing grid included in the amended credit agreement. We have not entered into any interest rate protection agreements with respect to term loans under our senior credit facilities. A commitment fee equal to 0.5% to 0.625% of the average daily amount of the available revolving commitment is payable quarterly.

Our senior credit facilities are secured by a security interest in substantially all of our tangible and intangible assets, including intellectual property. Our senior credit facilities are also secured by a pledge of the capital stock of our wholly-owned U.S. subsidiaries (other than certain specified subsidiaries).

Our senior credit facilities contain, without limitation, covenants that generally limit our ability to:

- incur additional debt;
- repurchase our capital stock and pay cash dividends in the event the pro forma senior leverage ratio is greater than 2.50x;
- incur liens or other encumbrances;
- merge, consolidate or sell substantially all our property or business;
- sell assets, other than inventory, in the ordinary course of business;
- make investments or acquisitions unless we meet financial tests and other requirements;
- make capital expenditures; or
- enter into an unrelated line of business.

Our senior credit facilities require us to comply with several financial covenants. The table below shows the required and actual ratios under our credit facilities calculated as of December 31, 2010:

	<u>Required Ratio</u>	<u>Actual Ratio</u>
Maximum consolidated leverage ratio	No greater than 3.25:1	1.69:1
Minimum fixed charge coverage ratio	No less than 1.35:1	1.85:1

These financial covenants, as well as the related components of their computation, are defined in the amended and restated credit agreement governing our senior credit facility, which is included as an exhibit to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010. In accordance with the credit agreement, the maximum consolidated leverage ratio was calculated by dividing the consolidated funded debt outstanding at December 31, 2010 (\$656.7 million) by consolidated EBITDA for the twelve month period ended December 31, 2010 (\$389.4 million). For purposes of the covenant calculation, (i) "consolidated funded debt" is defined as outstanding indebtedness less cash in excess of \$25.0 million, and (ii) "consolidated EBITDA" is generally defined as consolidated net income (a) plus the sum of income taxes, interest expense, depreciation and amortization expense, extraordinary non-cash expenses or losses, and other non-cash charges, and (b) minus the sum of interest income, extraordinary income or gains, other non-cash income, and cash payments with respect to extraordinary non-cash expenses or losses recorded in prior fiscal quarters. Consolidated EBITDA is a non-GAAP financial measure that is presented not as a measure of operating results, but rather as a measure used to determine covenant compliance under our senior credit facilities.

The minimum fixed charge coverage ratio was calculated pursuant to the credit agreement by dividing consolidated EBITDA for the twelve month period ended December 31, 2010, as adjusted for certain capital expenditures (\$485.7 million), by consolidated fixed charges for the twelve month period ended December 31, 2010 (\$263.0 million). For purposes of the covenant calculation, "consolidated fixed charges" is defined as the sum of interest expense, lease expense, and mandatory debt repayments.

Events of default under our senior credit facilities include customary events, such as a cross-acceleration provision in the event that we default on other debt. In addition, an event of default under the senior credit facility would occur if a change of control occurs. This is defined to include the case where a third party becomes the beneficial owner of 35% or more of our voting stock or certain changes in Rent-A-Center's Board of Directors occurs. An event of default would also occur if one or more judgments were entered against us of \$30.0 million or more and such judgments were not satisfied or bonded pending appeal within 30 days after entry.

We utilize our revolving credit facility for the issuance of letters of credit, as well as to manage normal fluctuations in operational cash flow caused by the timing of cash receipts. In that regard, we may from time to time draw funds under the revolving credit facility for general corporate purposes. The funds drawn on individual occasions have varied in amounts of up to \$98.0 million, with total amounts outstanding ranging from \$2.0 million up to \$108.0 million. The amounts drawn are generally outstanding for a short period of time and are generally paid down as cash is received from our operating activities.

6 $\frac{3}{8}$ % Senior Notes. On November 2, 2010, we issued \$300.0 million in senior unsecured notes due November 2020, bearing interest at 6 $\frac{3}{8}$ %, pursuant to an indenture dated November 2, 2010, among Rent-A-Center, Inc., its subsidiary guarantors and The Bank of New York Mellon Trust Company, as trustee. The proceeds of this offering were used to repay outstanding term debt under our senior credit facility and to repurchase shares of our common stock.

The 2010 indenture contains covenants that limit our ability to:

- incur additional debt;
- sell assets or our subsidiaries;
- grant liens to third parties;
- pay cash dividends or repurchase stock; and
- engage in a merger or sell substantially all of our assets.

Events of default under the 2010 indenture include customary events, such as a cross-acceleration provision in the event that we default in the payment of other debt due at maturity or upon acceleration for default in an amount exceeding \$50.0 million, as well as in the event a judgment is entered against us in excess of \$50.0 million that is not discharged, bonded or insured.

The 6 $\frac{3}{8}$ % notes may be redeemed on or after November 15, 2015, at our option, in whole or in part, at a premium declining from 103.313%. The 6 $\frac{3}{8}$ % notes may be redeemed on or after November 15, 2018, at our option,

in whole or in part, at par. The 6³/₈% notes also require that upon the occurrence of a change of control (as defined in the 2010 indenture), the holders of the notes have the right to require us to repurchase the notes at a price equal to 101% of the original aggregate principal amount, together with accrued and unpaid interest, if any, to the date of repurchase. This would trigger an event of default under our senior credit facilities. We are not required to maintain any financial ratios under the 2010 indenture.

Store Leases. 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 2019. Most of our store leases are five year leases and contain renewal options for additional periods ranging from three to five years at rental rates adjusted according to agreed-upon formulas.

ColorTyme Guarantees. Our subsidiary, ColorTyme Finance, Inc., is a party to an agreement with Citibank, N.A., who provides up to \$25.0 million in aggregate financing to qualifying franchisees of ColorTyme. Under the Citibank agreement, upon an event of default by the franchisee under agreements governing this financing and upon the occurrence of certain other events, Citibank can assign the loans and the collateral securing such loans to ColorTyme Finance, with ColorTyme Finance paying or causing to be paid the outstanding debt to Citibank and then succeeding to the rights of Citibank under the debt agreements, including the right to foreclose on the collateral. Rent-A-Center and ColorTyme Finance guarantee the obligations of the franchise borrowers under the Citibank facility. An additional \$20.0 million of financing is provided by Texas Capital Bank under an agreement similar to the Citibank financing, which is guaranteed by Rent-A-Center East, Inc., a subsidiary of Rent-A-Center. The maximum guarantee obligations under these agreements, excluding the effects of any amounts that could be recovered under collateralization provisions, is \$45.0 million, of which \$17.9 million was outstanding as of December 31, 2010.

Contractual Cash Commitments. The table below summarizes debt, lease and other minimum cash obligations outstanding as of December 31, 2010:

<u>Contractual Cash Obligations</u>	<u>Payments Due by Period</u>				
	<u>Total</u>	<u>2011</u>	<u>2012-2013</u>	<u>2014-2015</u>	<u>Thereafter</u>
			(In thousands)		
Senior Debt (including current portion)	\$ 401,114 ⁽¹⁾	\$ 36,530	\$ 77,334	\$287,250	\$ —
6 ³ / ₈ % Senior Notes ⁽²⁾	498,750	19,875	39,750	39,750	399,375
Operating Leases	537,677	177,266	254,574	97,340	8,497
Capital Leases	947	649	298	—	—
Total ⁽³⁾	<u>\$1,438,488</u>	<u>\$234,320</u>	<u>\$371,956</u>	<u>\$424,340</u>	<u>\$407,872</u>

⁽¹⁾ Includes amounts due under the Intrust line of credit. Amount referenced does not include interest payments. Our senior credit facilities bear interest at varying rates equal to the Eurodollar rate plus .75% to 3.0% or the prime rate plus up to 2.0% at our election. The combined weighted average Eurodollar and prime rate on our outstanding debt at December 31, 2010 was 0.31%.

⁽²⁾ Includes interest payments of \$9.9 million on each of May 15 and November 15 of each year.

⁽³⁾ As of December 31, 2010, we have \$6.7 million in uncertain tax positions. Because of the uncertainty of the amounts to be ultimately paid as well as the timing of such payments, uncertain tax positions are not reflected in the contractual obligations table.

Repurchases of Outstanding Securities. Our Board of Directors has authorized a common stock repurchase program, permitting us to purchase, from time to time, in the open market and privately negotiated transactions, up to an aggregate of \$800.0 million of Rent-A-Center common stock. As of December 31, 2010, we had purchased a total of 23,470,345 shares of Rent-A-Center common stock for an aggregate purchase price of \$551.2 million under this common stock repurchase program. We repurchased 1,403,993 shares for \$38.7 million in the fourth quarter of 2010. Through the twelve months ended December 31, 2010, we have repurchased a total of 3,585,495 shares for approximately \$84.6 million in cash.

Economic Conditions. Although our performance has not suffered in previous economic downturns, we cannot assure you that demand for our products, particularly in higher price ranges, will not significantly decrease in the event of a prolonged recession. Fluctuations in our targeted customers' monthly disposable income or high levels of unemployment could adversely impact our results of operations.

Seasonality. Our revenue mix is moderately seasonal, with the first quarter of each fiscal year generally providing higher merchandise sales than any other quarter during a fiscal year, primarily related to federal income tax refunds. Generally, our customers will more frequently exercise their early purchase option on their existing rental purchase agreements or purchase pre-leased merchandise off the showroom floor during the first quarter of each fiscal year. We expect this trend to continue in future periods. Furthermore, we tend to experience slower growth in the number of rental purchase agreements 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.

Effect of New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* ("ASU 2009-17"), which changes various aspects of accounting for and disclosures of interests in variable interest entities. ASU 2009-17 is effective for interim and annual periods beginning after November 15, 2009. The adoption of ASU 2009-17 had no effect on our consolidated statement of earnings, financial condition, statement of cash flows or earnings per share.

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that we adopt as of the specified effective date. Unless otherwise discussed, we believe the impact of any other recently issued standards that are not yet effective are either not applicable to us at this time or will not have a material impact on our consolidated financial statements upon adoption.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

Interest Rate Sensitivity

As of December 31, 2010, we had \$300.0 million in senior notes outstanding at a fixed interest rate of 6 $\frac{5}{8}$ %, \$383.3 million in term loans and approximately \$17.8 million outstanding on our Intrust line of credit at interest rates indexed to the Eurodollar rate. The fair value of the 6 $\frac{5}{8}$ % senior notes, based on the closing price at December 31, 2010, was \$299.8 million. Carrying value approximates fair value for all other indebtedness.

Market Risk

Market risk is the potential change in an instrument's value caused by fluctuations in interest rates. Our primary market risk exposure is fluctuations in interest rates. Monitoring and managing this risk is a continual process carried out by our senior management. We manage our market risk based on an ongoing assessment of trends in interest rates and economic developments, giving consideration to possible effects on both total return and reported earnings. As a result of such assessment, we may enter into swap contracts or other interest rate protection agreements from time to time to mitigate this risk.

Interest Rate Risk

We hold senior credit facilities with variable interest rates indexed to prime or Eurodollar rates that exposes us to the risk of increased interest costs if interest rates rise. As of December 31, 2010, we have not entered into any interest rate swap agreements. The credit markets have experienced adverse conditions, including wide fluctuations in rates. Such volatility in the credit markets could increase the costs associated with our existing long-term debt. Based on our overall interest rate exposure at December 31, 2010, a hypothetical 1.0% increase or decrease in interest rates would have the effect of causing a \$3.9 million additional pre-tax charge or credit to our statement of earnings.

Item 8. *Financial Statements and Supplementary Data.*

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Rent-A-Center, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Rent-A-Center, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the related statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rent-A-Center, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Rent-A-Center, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 25, 2011, expressed an unqualified opinion.

/s/ Grant Thornton LLP

Dallas, Texas
February 25, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Rent-A-Center, Inc. and Subsidiaries

We have audited Rent-A-Center, Inc. and Subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Rent-A-Center, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2010 and 2009, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010, and our report dated February 25, 2011, expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton LLP

Dallas, Texas
February 25, 2011

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company, including the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal control system was designed to provide reasonable assurance to management and the Company's Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. A system of internal control may become inadequate over time because of changes in conditions, or deterioration in the degree of compliance with the policies or procedures. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework*. Based on this assessment, management has concluded that, as of December 31, 2010, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles based on such criteria.

Grant Thornton LLP, the Company's independent registered public accounting firm, has issued an audit report on the effectiveness of the Company's internal control over financial reporting. This report appears on page 39.

Rent-A-Center, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended December 31,		
	2010	2009	2008
	(In thousands, except per share data)		
Revenues			
Store			
Rentals and fees	\$2,335,496	\$2,346,849	\$2,505,268
Merchandise sales	220,329	261,631	256,731
Installment sales	63,833	53,035	41,193
Other	76,542	57,601	42,759
Franchise			
Merchandise sales	30,575	28,065	33,283
Royalty income and fees	4,857	4,775	4,938
	<u>2,731,632</u>	<u>2,751,956</u>	<u>2,884,172</u>
Operating expenses			
Direct store expenses			
Cost of rentals and fees	519,282	530,018	572,900
Cost of merchandise sold	164,133	188,433	194,595
Cost of installment sales	23,303	18,687	16,620
Salaries and other expenses	1,543,391	1,556,074	1,651,805
Franchise cost of merchandise sold	29,242	26,820	31,705
	<u>2,279,351</u>	<u>2,320,032</u>	<u>2,467,625</u>
General and administrative expenses	126,319	137,626	125,632
Amortization and write-down of intangibles	3,254	2,843	16,637
Litigation expense (credit)	—	(4,869)	(4,607)
Impairment charge	18,939	—	—
Restructuring charge	—	—	4,497
	<u>2,427,863</u>	<u>2,455,632</u>	<u>2,609,784</u>
Total operating expenses	2,427,863	2,455,632	2,609,784
Operating profit	303,769	296,324	274,388
Finance charges from refinancing	3,100	—	—
Gain on extinguishment of debt	—	—	(4,335)
Interest expense	26,766	26,791	66,241
Interest income	(854)	(837)	(8,860)
	<u>274,757</u>	<u>270,370</u>	<u>221,342</u>
Earnings before income taxes	274,757	270,370	221,342
Income tax expense	103,115	102,515	81,718
	<u>\$ 171,642</u>	<u>\$ 167,855</u>	<u>\$ 139,624</u>
NET EARNINGS	\$ 171,642	\$ 167,855	\$ 139,624
Basic earnings per common share	<u>\$ 2.64</u>	<u>\$ 2.54</u>	<u>\$ 2.10</u>
Diluted earnings per common share	<u>\$ 2.60</u>	<u>\$ 2.52</u>	<u>\$ 2.08</u>
Cash dividends per common share	<u>\$ 0.12</u>	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes to consolidated financial statements.

Rent-A-Center, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2010	2009
	(In thousands, except share and par value data)	
ASSETS		
Cash and cash equivalents	\$ 70,727	\$ 101,803
Receivables, net of allowance for doubtful accounts of \$8,673 in 2010 and \$9,753 in 2009	53,890	63,439
Prepaid expenses and other assets	170,713	50,680
Rental merchandise, net		
On rent	655,248	589,066
Held for rent	181,606	160,932
Merchandise held for installment sale	5,417	4,069
Property assets, net.	224,639	204,551
Goodwill, net	1,320,467	1,268,684
Other intangible assets, net	5,624	773
	<u>\$2,688,331</u>	<u>\$2,443,997</u>
LIABILITIES		
Accounts payable — trade	\$ 126,051	\$ 97,159
Accrued liabilities	288,415	265,051
Deferred income taxes	218,952	123,115
Senior debt	401,114	711,158
Senior notes	300,000	—
	1,334,532	1,196,483
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, \$.01 par value; 250,000,000 shares authorized; 105,990,704 and 104,910,759 shares issued in 2010 and 2009, respectively	1,060	1,049
Additional paid-in capital	712,600	686,592
Retained earnings	1,541,168	1,377,332
Treasury stock, 42,845,444 and 39,259,949 shares at cost in 2010 and 2009, respectively	(904,274)	(819,754)
Cumulative translation adjustment	3,245	2,295
	1,353,799	1,247,514
	<u>\$2,688,331</u>	<u>\$2,443,997</u>

See accompanying notes to consolidated financial statements.

Rent-A-Center, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the three years ended December 31, 2010

(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
	Shares	Amount				
Balance at January 1, 2008	104,540	\$1,045	\$674,032	\$1,069,553	\$(797,539)	\$ 947,091
Net earnings	—	—	—	139,624	—	139,624
Other comprehensive income:						
Foreign currency translation adjustment	—	—	—	386	—	386
Comprehensive income						<u>140,010</u>
Purchase of treasury stock (952 shares)	—	—	(24)	—	(13,382)	(13,406)
Exercise of stock options	229	2	3,167	—	—	3,169
Tax benefits related to exercise of stock options	—	—	560	—	—	560
Stock-based compensation	—	—	3,341	—	—	3,341
Other	—	—	(9)	(1,554)	—	(1,563)
Balance at December 31, 2008	104,769	1,047	681,067	1,208,009	(810,921)	1,079,202
Net earnings	—	—	—	167,855	—	167,855
Other comprehensive income:						
Foreign currency translation adjustment	—	—	—	2,295	—	2,295
Comprehensive income						<u>170,150</u>
Purchase of treasury stock (472 shares)	—	—	(13)	—	(8,833)	(8,846)
Exercise of stock options	142	2	1,535	—	—	1,537
Tax benefits related to exercise of stock options	—	—	270	—	—	270
Stock-based compensation	—	—	3,731	—	—	3,731
Other	—	—	2	1,468	—	1,470
Balance at December 31, 2009	104,911	1,049	686,592	1,379,627	(819,754)	1,247,514
Net earnings	—	—	—	171,642	—	171,642
Other comprehensive income:						
Foreign currency translation adjustment	—	—	—	950	—	950
Comprehensive income						<u>172,592</u>
Purchase of treasury stock (3,585 shares)	—	—	(72)	—	(84,520)	(84,592)
Exercise of stock options	1,080	11	19,029	—	—	19,040
Tax benefits related to exercise of stock options	—	—	2,974	—	—	2,974
Stock-based compensation	—	—	4,123	—	—	4,123
Dividends paid	—	—	—	(7,804)	—	(7,804)
Other	—	—	(46)	(2)	—	(48)
Balance at December 31, 2010	<u>105,991</u>	<u>\$1,060</u>	<u>\$712,600</u>	<u>\$1,544,413</u>	<u>\$(904,274)</u>	<u>\$1,353,799</u>

See accompanying notes to consolidated financial statements.

Rent-A-Center, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Cash flows from operating activities			
Net earnings	\$ 171,642	\$ 167,855	\$ 139,624
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation of rental merchandise	506,854	519,103	561,414
Bad debt expense	16,168	17,395	14,455
Stock-based compensation expense	4,123	3,731	3,341
Depreciation of property assets	63,410	65,788	72,683
Loss on sale or disposal of property assets	13,599	5,856	375
Amortization of intangibles	701	1,291	12,589
Amortization of financing fees	2,047	1,970	1,703
Finance charges from refinancing	3,100	—	—
Deferred income taxes	95,837	35,899	77,538
Tax benefit related to stock option exercises	(2,974)	(270)	(560)
Gain on extinguishment of debt	—	—	(4,335)
Impairment charge	18,939	—	—
Restructuring charge	—	—	4,497
Changes in operating assets and liabilities, net of effects of acquisitions			
Rental merchandise	(567,733)	(449,128)	(438,964)
Receivables	(6,620)	(34,781)	(24,572)
Prepaid expenses and other assets	(123,649)	(9,421)	(7,056)
Accounts payable — trade	25,467	16,367	(6,924)
Accrued liabilities	(4,422)	(11,534)	(21,472)
Net cash provided by operating activities	216,489	330,121	384,336
Cash flows from investing activities			
Purchase of property assets	(93,007)	(68,841)	(61,931)
Proceeds from sale of property assets	203	3,122	6,144
Acquisitions of businesses, net of cash acquired	(74,378)	(7,221)	(15,700)
Net cash used in investing activities	(167,182)	(72,940)	(71,487)
Cash flows from financing activities			
Purchase of treasury stock	(84,520)	(8,833)	(13,382)
Exercise of stock options	19,040	1,537	3,169
Tax benefit related to stock option exercises	2,974	270	560
Payments on capital leases	(979)	(2,100)	(5,662)
Issuance of senior notes	300,000	—	—
Proceeds from debt	92,230	186,100	213,050
Repayments of debt	(402,274)	(196,654)	(446,338)
Repurchase of subordinated notes	—	(225,375)	(74,625)
Dividends paid	(7,804)	—	—
Net cash used in financing activities	(81,333)	(245,055)	(323,228)
Effect of exchange rate changes on cash	950	2,295	386
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(31,076)	14,421	(9,993)
Cash and cash equivalents at beginning of year	101,803	87,382	97,375
Cash and cash equivalents at end of year	<u>\$ 70,727</u>	<u>\$ 101,803</u>	<u>\$ 87,382</u>
Supplemental cash flow information			
Cash paid during the year for:			
Interest	\$ 20,569	\$ 27,920	\$ 70,688
Income taxes (excludes \$330, \$1,380 and \$34,656 of income taxes refunded in 2010, 2009 and 2008, respectively)	\$ 124,065	\$ 69,312	\$ 20,954

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A — Summary of Accounting Policies and Nature of Operations

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation and Nature of Operations

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

Our primary operating segment consists of leasing household durable goods to customers on a rent-to-own basis. We also offer merchandise on an installment sales basis in certain of our stores. At December 31, 2010, we operated 3,008 company-owned stores nationwide and in Canada, Puerto Rico and Mexico, including 42 retail installment sales stores under the names "Get It Now" and "Home Choice," and 18 rent-to-own stores in Canada under the name "Rent-A-Centre."

We also operate kiosk locations under the trade name "RAC Acceptance" which offers the rent-to-own transaction to consumers who do not qualify for financing from the traditional retailer. These kiosks are located within such retailer's store locations. At December 31, 2010, we operated 384 RAC Acceptance locations.

ColorTyme, Inc., an indirect wholly-owned subsidiary of Rent-A-Center, is a nationwide franchisor of rent-to-own stores. At December 31, 2010, ColorTyme had 209 franchised stores operating in 32 states. ColorTyme's primary source of revenue is the sale of rental merchandise to its franchisees, who in turn offer the merchandise to the general public for rent or purchase under a rent-to-own program. The balance of ColorTyme's revenue is generated primarily from royalties based on franchisees' monthly gross revenues.

From 2005 to 2010, we also offered an array of financial services in certain of our existing stores under the names "RAC Financial Services" and "Cash AdvantEdge." The financial services we offered included, but were not limited to, short term secured and unsecured loans, debit cards, check cashing and money transfer services. As of February 18, 2011, we had ceased making new loans, sold a majority of our customer accounts, and had less than \$5.0 million in remaining loan balance.

Rental Merchandise

Rental merchandise is carried at cost, net of accumulated depreciation. Depreciation for merchandise is generally provided using the income forecasting method, which is intended to match as closely as practicable the recognition of depreciation expense with the consumption of the rental merchandise, and assumes no salvage value. The consumption of rental merchandise occurs during periods of rental and directly coincides with the receipt of rental revenue over the rental-purchase agreement period, generally seven to 30 months. Under the income forecasting method, merchandise held for rent is not depreciated and merchandise on rent is depreciated in the proportion of rents received to total rents provided in the rental contract, which is an activity-based method similar to the units of production method. We depreciate merchandise held for rent (except for computers) that is at least 270 days old and held for rent for at least 180 consecutive days using the straight-line method for a period generally not to exceed 20 months.

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.

Rental merchandise which is damaged and inoperable is expensed when such impairment occurs. 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

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

account became past due. We maintain a reserve for these expected expenses. In addition, any minor repairs made to rental merchandise are expensed at the time of the repair.

Cash Equivalents

Cash equivalents include all highly liquid investments with an original maturity of three months or less. We maintain cash and cash equivalents at several financial institutions, which at times may not be federally insured or may exceed federally insured limits. We have not experienced any losses in such accounts and believe we are not exposed to any significant credit risks on such accounts.

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.

The revenue from our financial services is recognized 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.

Receivables and Allowance for Doubtful Accounts

The receivable associated with the sale of merchandise at our Get It Now and Home Choice stores generally consists of the sales price of the merchandise purchased and any additional fees for services the customer has chosen, less the customer's down payment. No interest is accrued and interest income is recognized each time a customer makes a payment, generally on a monthly basis.

Our financial services business extends short term secured and unsecured loans. The amount and length of such loans may vary depending on applicable state law.

We have established an allowance for doubtful accounts for our installment notes and loan receivables. Our policy for determining the allowance is based on historical loss experience, as well as the results of management's review and analysis of the payment and collection of the installment notes and loan receivables within the previous year. We believe our allowances are adequate to absorb any known or probable losses. Our policy is to charge off installment notes and loan receivables that are 90 days or more past due. Charge offs are applied as a reduction to the allowance for doubtful accounts and any recoveries of previously charged off balances are applied as an increase to the allowance for doubtful accounts.

The majority of ColorTyme's accounts receivable relate to amounts due from franchisees. Credit is extended based on an evaluation of a franchisee's financial condition and collateral is generally not required. Accounts receivable are due within 30 days and are stated at amounts due from franchisees net of an allowance for doubtful accounts. Accounts that are outstanding longer than the contractual payment terms are considered past due. ColorTyme determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, ColorTyme's previous loss history, the franchisee's current ability to pay its obligation to

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

ColorTyme, and the condition of the general economy and the industry as a whole. ColorTyme writes off accounts receivable that are 120 days or more past due and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Property Assets and Related Depreciation

Furniture, equipment and vehicles are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the respective assets (generally five years) by the straight-line method. Our building is depreciated over approximately 40 years. Leasehold improvements are amortized over the useful life of the asset or the initial term of the applicable leases by the straight-line method, whichever is shorter.

We have incurred costs to develop computer software for internal use. We capitalize the costs incurred during the application development stage, which includes designing the software configuration and interfaces, coding, installation, and testing. Costs incurred during the preliminary stages along with post-implementation stages of internally developed software are expensed as incurred. For the year ended December 31, 2010, we placed in service approximately \$20.6 million and amortized approximately \$2.0 million of internally developed software. As of December 31, 2009, we had not placed in service or amortized any internally developed software. Internally developed software costs, once placed in service, are amortized over various periods up to ten years.

We incur repair and maintenance expenses on our vehicles and equipment. These amounts are recognized when incurred, unless such repairs significantly extend the life of the asset, in which case we amortize the cost of the repairs for the remaining life of the asset utilizing the straight-line method.

Intangible Assets and Amortization

We record goodwill when the consideration paid for an acquisition exceeds the fair value of the identifiable net tangible and identifiable intangible assets acquired. Goodwill is not subject to amortization but must be periodically evaluated for impairment. Impairment occurs when the carrying value of goodwill is not recoverable from future cash flows. We perform an assessment of goodwill for impairment at the reporting unit level annually as of December 31 of each year, or when events or circumstances indicate that impairment may have occurred. Factors which could necessitate an interim impairment assessment include a sustained decline in our stock price, prolonged negative industry or economic trends and significant underperformance relative to expected historical or projected future operating results. We assess recoverability using methodologies which include the present value of estimated future cash flows and comparisons of multiples of enterprise values to earnings before interest, taxes, depreciation and amortization. The analysis is based upon available information regarding expected future cash flows and discount rates. Discount rates are based upon our cost of capital. If the carrying value exceeds the discounted fair value, a second analysis is performed to measure the fair value of all assets and liabilities. If, based on the second analysis, it is determined that the fair value of the assets and liabilities is less than the carrying value, we would recognize impairment charges in an amount equal to the excess of the carrying value over fair value. There were no impairment charges recognized related to goodwill in 2010, 2009 and 2008.

Accounting for Impairment of Long-Lived Assets

We evaluate all long-lived assets, including intangible assets, excluding goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Impairment is recognized when the carrying amounts of such assets cannot be recovered by the undiscounted net cash flows they will generate.

Foreign Currency Translation

The functional currency of our foreign operations is predominantly the applicable local currency. Assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange on the

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

last day of the reporting period. Revenues and expenses are generally translated at a daily exchange rate and equity transactions are translated using the actual rate on the day of the transaction.

Other Comprehensive Income

Other comprehensive income is comprised exclusively of our foreign currency translation adjustment. The cumulative currency translation adjustment was approximately \$3.2 million and \$2.3 million at December 31, 2010 and 2009, respectively.

Income Taxes

We record deferred taxes for temporary differences between the tax and financial reporting bases of assets and liabilities at the enacted tax rate expected to be in effect when taxes become payable. Income tax accounting requires management to make estimates and apply judgments to events that will be recognized in one period under rules that apply to financial reporting in a different period in our tax returns. In particular, judgment is required when estimating the value of future tax deductions, tax credits and net operating loss carryforwards (NOLs), as represented by deferred tax assets. When it is determined the recovery of all or a portion of a deferred tax asset is not likely, a valuation allowance is established. We include NOLs in the calculation of deferred tax assets. NOLs are utilized to the extent allowable due to the provisions of the Internal Revenue Code of 1986, as amended, and relevant state statutes.

Sales Taxes

We apply the net basis for sales taxes imposed on our goods and services in our Consolidated Statements of Earnings. We are required by the applicable governmental authorities to collect and remit sales taxes. Accordingly, such amounts are charged to the customer, collected and remitted directly to the appropriate jurisdictional entity.

Earnings Per Common Share

Basic earnings per common share are based upon the weighted average number of common shares outstanding during each period presented. Diluted earnings per common share are based upon the weighted average number of common shares outstanding during the period, plus, if dilutive, the assumed exercise of stock options at the beginning of the year, or for the period outstanding during the year for current year issuances.

Advertising Costs

Costs incurred for producing and communicating advertising are expensed when incurred. Advertising expense was \$77.3 million, \$78.7 million and \$82.5 million in 2010, 2009 and 2008, respectively.

Stock-Based Compensation

We maintain long-term incentive plans for the benefit of certain employees, consultants and directors, which are described more fully in Note K. We 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.

Compensation costs are recognized net of estimated forfeitures over the award's requisite service period on a straight-line basis. For the years ended December 31, 2010, 2009 and 2008, we recorded stock-based compensation

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

expense, net of related taxes, of approximately \$2.6 million, \$2.3 million and \$2.1 million, respectively, related to stock options and restricted stock units granted.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent losses and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. In applying accounting principles, we must often make individual estimates and assumptions regarding expected outcomes or uncertainties. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. We believe self-insurance liabilities, litigation and tax reserves are areas where the degree of judgment and complexity in determining amounts recorded in our consolidated financial statements make the accounting policies critical.

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (“ASU 2009-17”), which changes various aspects of accounting for and disclosures of interests in variable interest entities. ASU 2009-17 is effective for interim and annual periods beginning after November 15, 2009. The adoption of ASU 2009-17 had no effect on our consolidated statement of earnings, financial condition, statement of cash flows or earnings per share.

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that we adopt as of the specified effective date. Unless otherwise discussed, we believe the impact of any other recently issued standards that are not yet effective are either not applicable to us at this time or will not have a material impact on our consolidated financial statements upon adoption.

Note B — Receivables and Allowance for Doubtful Accounts

Receivables consist of the following:

	December 31,	
	2010	2009
	(In thousands)	
Installment sales receivable	\$42,839	\$35,636
Financial services loans receivable	12,232	26,021
Trade and notes receivables	7,492	11,535
Total	62,563	73,192
Less allowance for doubtful accounts	(8,673)	(9,753)
Net receivables	\$53,890	\$63,439

The allowance for doubtful accounts related to installment sales receivable was \$6.0 million and \$5.8 million, financial services loans receivable was \$610,000 and \$1.2 million, and trade receivables was \$2.1 million and \$2.8 million at December 31, 2010 and 2009, respectively. See Note O for additional information with respect to the allowance for doubtful accounts for financial services loans receivable.

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Changes in our allowance for doubtful accounts are as follows:

	December 31,		
	2010	2009	2008
	(In thousands)		
Beginning balance	\$ 9,753	\$ 7,256	\$ 4,945
Bad debt expense	16,168	17,395	14,455
Accounts written off	(23,107)	(20,721)	(17,843)
Recoveries	5,859	5,823	5,699
Ending balance	<u>\$ 8,673</u>	<u>\$ 9,753</u>	<u>\$ 7,256</u>

Note C — Rental Merchandise

	December 31,	
	2010	2009
	(In thousands)	
On rent		
Cost	\$1,083,496	\$1,038,408
Less accumulated depreciation	(428,248)	(449,342)
Net book value, on rent	<u>\$ 655,248</u>	<u>\$ 589,066</u>
Held for rent		
Cost	\$ 242,348	\$ 220,523
Less accumulated depreciation	(60,742)	(59,591)
Net book value, held for rent	<u>\$ 181,606</u>	<u>\$ 160,932</u>

Note D — Property Assets

	December 31,	
	2010	2009
	(In thousands)	
Furniture and equipment	\$ 249,392	\$ 221,117
Transportation equipment	14,032	16,835
Building and leasehold improvements	259,476	238,938
Land and land improvements	5,299	5,193
Construction in progress	42,291	26,919
	570,490	509,002
Less accumulated depreciation	(345,851)	(304,451)
	<u>\$ 224,639</u>	<u>\$ 204,551</u>

We had \$37.8 million and \$19.0 million of capitalized software costs included in construction in progress at December 31, 2010 and 2009, respectively.

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note E — Intangible Assets and Acquisitions

Amortizable intangible assets consist of the following (in thousands):

	Avg. Life (years)	December 31, 2010		December 31, 2009	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-compete agreements	3	\$ 6,094	\$ 6,057	\$ 6,091	\$ 6,021
Customer relationships	2	67,811	62,224	62,247	61,544
Total		<u>\$73,905</u>	<u>\$68,281</u>	<u>\$68,338</u>	<u>\$67,565</u>

Aggregate Amortization Expense

Year ended December 31, 2010	\$ 701
Year ended December 31, 2009	\$ 1,291
Year ended December 31, 2008	\$12,589

Estimated amortization expense, assuming current intangible balances and no new acquisitions, for each of the years ending December 31, is as follows:

	Estimated Amortization Expense (In thousands)
2011	\$3,301
2012	2,323
Total	<u>\$5,624</u>

A summary of the changes in recorded goodwill follows (in thousands):

	December 31, 2010	December 31, 2009
Gross balance as of January 1,	\$1,367,836	\$1,364,401
Accumulated amortization	(99,152)	(99,152)
Additions from acquisitions	55,922	4,456
Goodwill related to stores sold or closed	(4,320) ⁽¹⁾	(1,552)
Post purchase price allocation adjustments	181	531
Balance as of the end of the period	<u>\$1,320,467</u>	<u>\$1,268,684</u>

⁽¹⁾ Includes \$1.8 million of goodwill impairment related to the discontinuation of our financial services business.

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Acquisitions

The following table provides information concerning the acquisitions made during the years ended December 31, 2010, 2009 and 2008.

	Year Ended December 31,		
	2010	2009	2008
	(Dollar amounts in thousands)		
Number of stores acquired remaining open	3	1	5
Number of stores acquired that were merged with existing stores . . .	26	26	38
Number of kiosk locations acquired	158	—	—
Number of transactions	15	20	20
Total purchase price	\$ 74,378 ⁽¹⁾	\$7,221	\$15,700
Amounts allocated to:			
Goodwill	\$ 55,922	\$4,456	\$ 9,692
Non-compete agreements	—	—	2
Customer relationships	5,551	554	1,091
Accounts receivable	—	398	—
Property and other assets	1,740	—	25
Rental merchandise	27,325	1,813	4,890
Liabilities assumed	(16,160)	—	—

⁽¹⁾ Of this amount, \$71.0 million, net of cash acquired, was funded in connection with the acquisition of The Rental Store, Inc.

Purchase prices are determined by evaluating the average monthly rental income of the acquired stores and applying a multiple to the total for rent-to-own store acquisitions. With respect to the acquisition of The Rental Store, Inc., the purchase price was determined using a pro forma multiple of earnings. Acquired customer relationships are amortized utilizing the straight-line method over a 21 month period, non-compete agreements are amortized using the straight-line method over the life of the agreements, other intangible assets are amortized using the straight-line method over the life of the asset and goodwill associated with acquisitions is not amortized. The weighted average amortization period was 2.0 years for intangible assets acquired during the year ended December 31, 2010. Additions to goodwill due to acquisitions in 2010 were tax deductible.

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

Note F — Senior Debt

Our senior credit agreement, as amended, provides for a \$1,024 million senior credit facility consisting of a \$165 million term loan with the loans being referred to by us as the “tranche A term loans,” a \$484 million term loan with the loans being referred to by us as the “tranche B term loans,” and a \$375 million revolving credit facility. The tranche A term loans are divided into two equal sub-tranches of \$82.5 million each, referred to by us as the “existing tranche A term loans” and the “extended tranche A term loans.” The existing tranche A term loans mature on June 30, 2011, and the extended tranche A term loans mature on September 30, 2013. The tranche B term loans are divided into two sub-tranches of approximately \$184 million and \$300 million, referred to by us as the “existing tranche B term loans” and the “extended tranche B term loans,” respectively. The existing tranche B term loans mature on June 30, 2012, and the extended tranche B term loans mature on March 31, 2015.

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The debt facilities as of December 31, 2010 and 2009 are as follows:

Facility Maturity	2010			2009			
	Maximum Facility	Amount Outstanding	Amount Available	Maximum Facility	Amount Outstanding	Amount Available	
(In thousands)							
Senior Credit Facilities:							
Tranche A Term Loans							
Existing	2011	\$ 82,500	\$ 18,750	\$ —	\$ 82,500	\$ 80,000	\$ —
Tranche A Term Loans							
Extended	2013	82,500	55,000	—	82,500	80,000	—
Tranche B Term Loans							
Existing	2012	184,080	13,334	—	184,080	183,438	—
Tranche B Term Loans							
Extended	2015	300,000	290,250	—	300,000	299,250	—
Revolving Facility ⁽¹⁾							
	2013	<u>375,000</u>	<u>6,000</u>	<u>231,629</u>	<u>350,000</u>	<u>52,000</u>	<u>179,520</u>
		1,024,080	383,334	231,629	999,080	694,688	179,520
Other Indebtedness:							
Line of credit		<u>20,000</u>	<u>17,780</u>	<u>2,220</u>	<u>20,000</u>	<u>16,470</u>	<u>3,530</u>
Total		<u>\$1,044,080</u>	<u>\$401,114</u>	<u>\$233,849</u>	<u>\$1,019,080</u>	<u>\$711,158</u>	<u>\$183,050</u>

⁽¹⁾ At December 31, 2010 and 2009, the amounts available under the Revolving Facility were reduced by approximately \$137.4 million and \$118.5 million, respectively, for our outstanding letters of credit.

Borrowings under our amended senior credit facility accrue interest at varying rates equal to, at our election, either (y) the prime rate plus (i) up to 0.75% in the case of existing tranche A term loans, (ii) 1.5% to 2.0% in the case of revolving loans or extended tranche A term loans, (iii) .75% in the case of existing tranche B term loans, and (iv) 2.0% in the case of extended tranche B term loans; or (z) the Eurodollar rate plus (i) .75% to 1.75% in the case of existing tranche A term loans, (ii) 2.5% to 3.0% in the case of revolving loans or extended tranche A term loans, (iii) 1.75% in the case of existing tranche B term loans, and (iv) 3.0% in the case of extended tranche B term loans. Interest periods range from seven days (for borrowings under the revolving credit facility only) to one, two, three or six months, at our election. The weighted average Eurodollar rate on our outstanding debt was 0.31% at February 18, 2011. The margins on the Eurodollar rate and on the prime rate for revolving loans, existing tranche A term loans, and extended tranche A term loans may fluctuate dependent upon an increase or decrease in our consolidated leverage ratio as defined by a pricing grid included in the amended credit agreement. We have not entered into any interest rate protection agreements with respect to term loans under our senior credit facilities. A commitment fee equal to 0.5% to 0.625% of the average daily amount of the available revolving commitment is payable quarterly.

Our senior credit facilities are secured by a security interest in substantially all of our tangible and intangible assets, including intellectual property. Our senior credit facilities are also secured by a pledge of the capital stock of our wholly-owned U.S. subsidiaries (other than certain specified subsidiaries).

Our senior credit facilities contain, without limitation, covenants that generally limit our ability to:

- incur additional debt;
- repurchase our capital stock and pay cash dividends in the event the pro forma senior leverage ratio is greater than 2.50x;
- incur liens or other encumbrances;

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- merge, consolidate or sell substantially all our property or business;
- sell assets, other than inventory, in the ordinary course of business;
- make investments or acquisitions unless we meet financial tests and other requirements;
- make capital expenditures; or
- enter into an unrelated line of business.

Our senior credit facilities require us to comply with several financial covenants. The table below shows the required and actual ratios under our credit facilities calculated as of December 31, 2010:

	Required Ratio	Actual Ratio	
Maximum consolidated leverage ratio	No greater than	3.25:1	1.69:1
Minimum fixed charge coverage ratio	No less than	1.35:1	1.85:1

These financial covenants, as well as the related components of their computation, are defined in the amended and restated credit agreement governing our senior credit facility, which is included as an exhibit to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010. In accordance with the credit agreement, the maximum consolidated leverage ratio was calculated by dividing the consolidated funded debt outstanding at December 31, 2010 (\$656.7 million) by consolidated EBITDA for the twelve month period ended December 31, 2010 (\$389.4 million). For purposes of the covenant calculation, (i) “consolidated funded debt” is defined as outstanding indebtedness less cash in excess of \$25.0 million, and (ii) “consolidated EBITDA” is generally defined as consolidated net income (a) plus the sum of income taxes, interest expense, depreciation and amortization expense, extraordinary non-cash expenses or losses, and other non-cash charges, and (b) minus the sum of interest income, extraordinary income or gains, other non-cash income, and cash payments with respect to extraordinary non-cash expenses or losses recorded in prior fiscal quarters. Consolidated EBITDA is a non-GAAP financial measure that is presented not as a measure of operating results, but rather as a measure used to determine covenant compliance under our senior credit facilities.

The minimum fixed charge coverage ratio was calculated pursuant to the credit agreement by dividing consolidated EBITDA for the twelve month period ended December 31, 2010, as adjusted for certain capital expenditures (\$485.7 million), by consolidated fixed charges for the twelve month period ended December 31, 2010 (\$263.0 million). For purposes of the covenant calculation, “consolidated fixed charges” is defined as the sum of interest expense, lease expense, and mandatory debt repayments.

Events of default under our senior credit facilities include customary events, such as a cross-acceleration provision in the event that we default on other debt. In addition, an event of default under the senior credit facility would occur if a change of control occurs. This is defined to include the case where a third party becomes the beneficial owner of 35% or more of our voting stock or certain changes in Rent-A-Center’s Board of Directors occurs. An event of default would also occur if one or more judgments were entered against us of \$30.0 million or more and such judgments were not satisfied or bonded pending appeal within 30 days after entry.

We utilize our revolving credit facility for the issuance of letters of credit, as well as to manage normal fluctuations in operational cash flow caused by the timing of cash receipts. In that regard, we may from time to time draw funds under the revolving credit facility for general corporate purposes. The funds drawn on individual occasions have varied in amounts of up to \$98.0 million, with total amounts outstanding ranging from \$2.0 million up to \$108.0 million. The amounts drawn are generally outstanding for a short period of time and are generally paid down as cash is received from our operating activities.

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The table below shows the scheduled maturity dates of our senior debt outstanding at December 31, 2010.

<u>Year Ending December 31,</u>	<u>(In thousands)</u>
2011	\$ 36,530
2012	28,959
2013	48,375
2014	215,625
2015	<u>71,625</u>
	<u>\$401,114</u>

Note G — Senior Notes

On November 2, 2010, we issued \$300.0 million in senior unsecured notes due November 2020, bearing interest at 6 $\frac{5}{8}$ %, pursuant to an indenture dated November 2, 2010, among Rent-A-Center, Inc., its subsidiary guarantors and The Bank of New York Mellon Trust Company, as trustee. The proceeds of this offering were used to repay outstanding term debt under our senior credit facility and to repurchase shares of our common stock.

The 2010 indenture contains covenants that limit our ability to:

- incur additional debt;
- sell assets or our subsidiaries;
- grant liens to third parties;
- pay cash dividends or repurchase stock; and
- engage in a merger or sell substantially all of our assets.

Events of default under the 2010 indenture include customary events, such as a cross-acceleration provision in the event that we default in the payment of other debt due at maturity or upon acceleration for default in an amount exceeding \$50.0 million, as well as in the event a judgment is entered against us in excess of \$50.0 million that is not discharged, bonded or insured.

The 6 $\frac{5}{8}$ % notes may be redeemed on or after November 15, 2015, at our option, in whole or in part, at a premium declining from 103.313%. The 6 $\frac{5}{8}$ % notes may be redeemed on or after November 15, 2018, at our option, in whole or in part, at par. The 6 $\frac{5}{8}$ % notes also require that upon the occurrence of a change of control (as defined in the 2010 indenture), the holders of the notes have the right to require us to repurchase the notes at a price equal to 101% of the original aggregate principal amount, together with accrued and unpaid interest, if any, to the date of repurchase. This would trigger an event of default under our senior credit facilities. We are not required to maintain any financial ratios under the 2010 indenture.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note H — Accrued Liabilities

	December 31,	
	2010	2009
	(In thousands)	
Accrued insurance costs	\$138,760	\$137,824
Accrued compensation	47,656	39,122
Deferred revenue	36,620	33,476
Taxes other than income	24,244	20,357
Accrued capital lease obligations	816	2,348
Accrued interest payable	5,245	1,193
Accrued other	35,074	30,731
	<u>\$288,415</u>	<u>\$265,051</u>

Note I — Income Taxes

A reconciliation of income tax expense at the federal statutory rate of 35% to actual tax expense follows:

	Year Ended December 31,		
	2010	2009	2008
Tax at statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit (expense)	2.9%	3.1%	2.0%
Effect of foreign operations, net of foreign tax credits	0.5%	—%	—%
Other, net	(0.9)%	(0.2)%	(0.1)%
Total	<u>37.5%</u>	<u>37.9%</u>	<u>36.9%</u>

The components of income tax expense are as follows:

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Current expense			
Federal	\$ 749	\$ 55,101	\$ 399
State	8,656	10,278	2,574
Foreign	4,220	1,288	1,192
Total current	<u>13,625</u>	<u>66,667</u>	<u>4,165</u>
Deferred expense			
Federal	85,866	33,028	73,015
State	3,624	2,820	4,538
Total deferred	<u>89,490</u>	<u>35,848</u>	<u>77,553</u>
Total	<u>\$103,115</u>	<u>\$102,515</u>	<u>\$81,718</u>

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred tax assets (liabilities) consist of the following:

	<u>Year Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
	(In thousands)	
Deferred tax assets		
Federal net operating loss carryforwards	\$ 24,612	\$ 32,067
State net operating loss carryforwards	12,318	17,018
Foreign net operating loss carryforwards	595	—
Accrued liabilities	53,777	47,957
Property assets	1,141	15,014
Other assets including credits	1,261	1,701
Foreign tax credit carryforwards	<u>2,207</u>	<u>1,218</u>
	95,911	114,975
Valuation allowance	(5,951)	(7,968)
Deferred tax liabilities		
Rental merchandise	(244,662)	(181,533)
Intangible assets	<u>(64,250)</u>	<u>(48,589)</u>
	<u>(308,912)</u>	<u>(230,122)</u>
Net deferred taxes	<u>\$ (218,952)</u>	<u>\$ (123,115)</u>

At December 31, 2010, we had approximately \$63.8 million of federal net operating loss (“NOL”) carryforwards available to offset future taxable income expiring between 2018 and 2025 and approximately \$278.0 million of state NOL carryforwards expiring between 2011 and 2026. All of our federal NOLs and approximately \$84.0 million of our state NOLs represent acquired NOLs and their utilization is subject to applicable annual limitations for U.S. state and U.S. federal tax purposes, including Section 382 of the Internal Revenue Code of 1986, as amended. We establish a valuation allowance to the extent we consider it more likely than not that the deferred tax assets attributable to our acquired state NOLs or foreign tax credits will not be recovered.

We are subject to federal, state, local and foreign income taxes. Along with our U.S. subsidiaries, we file a U.S. federal consolidated income tax return. With few exceptions, we are no longer subject to U.S. federal, state, foreign and local income tax examinations by tax authorities for years before 2007. The appeals process with the Internal Revenue Service (IRS) Office of Appeals for the years 2001 through 2005 has been completed. We reached agreement on all issues except one issue with respect to the 2003 tax year which also recurs in each of the 2004, 2005, 2006 and 2007 taxable years. The IRS concluded its examination of our consolidated income tax return for the years 2006 and 2007, and issued a Revenue Agent’s Report (RAR) on January 19, 2010. We reached agreement on all issues except the issue identified above. We believe the position and supporting case law applied by the IRS are incorrectly applied to our situation and that our fact pattern is distinguishable from the IRS’ position. We intend to vigorously defend our position on the issue. This matter, which now includes the years 2003 through 2007, has been docketed in the United States Tax Court for trial in late 2011. Currently, we are also under examination in various states. We do not anticipate that adjustments, if any, regarding the 2003 through 2007 disputed issue or state examinations will result in a material change to our consolidated statement of earnings, financial condition, statement of cash flows or earnings per share.

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

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

A reconciliation of the beginning and ending amount of unrecognized tax benefits follows:

	(In thousands)
Balance at January 1, 2009	\$2,057
Additions based on tax positions related to current year	—
Additions for tax positions of prior years	1,744
Reductions for tax positions of prior years	—
Settlements	<u>(771)</u>
Balance at January 1, 2010	3,030
Additions based on tax positions related to current year	958
Additions for tax positions of prior years	2,928
Reductions for tax positions of prior years	<u>(241)</u>
Balance at December 31, 2010	<u>\$6,675</u>

Included in the balance of unrecognized tax benefits at December 31, 2010 is \$4.8 million, net of federal benefit, which, if ultimately recognized, will reduce our annual effective tax rate.

We classify interest accrued related to unrecognized tax benefits as interest expense and penalties related to unrecognized tax benefits as operating expenses. We recorded interest expense of approximately \$282,000 for the year ended December 31, 2010. As of December 31, 2010, we have accrued approximately \$787,000 for the payment of interest and penalties.

Note J — Commitments and Contingencies

Leases

We lease our service center and store facilities and most delivery vehicles. Certain of the store leases contain escalation clauses for increased taxes and operating expenses. Rental expense was \$221.9 million, \$219.0 million and \$215.8 million for 2010, 2009 and 2008, respectively. Capital leases include certain transportation equipment. Future minimum rental payments under operating/capital leases with remaining lease terms in excess of one year at December 31, 2010 are as follows:

<u>Year Ending December 31,</u>	<u>Operating Leases</u> (In thousands)	<u>Capital Leases</u> (In thousands)
2011	\$177,266	\$ 649
2012	145,658	298
2013	108,916	—
2014	66,160	—
2015	31,180	—
Thereafter	<u>8,497</u>	<u>—</u>
	537,677	947
Less amount representing interest obligations under capital lease . . .	<u>—</u>	<u>(131)</u>
	<u>\$537,677</u>	<u>\$ 816</u>

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Our investment in equipment under capital leases are as follows:

	Year Ended December 31,	
	2010	2009
	(In thousands)	
Equipment under capital lease	\$ 4,656	\$ 7,714
Less accumulated amortization	(3,803)	(5,257)
Equipment under capital lease, net	\$ 853	\$ 2,457

Litigation

From time to time, we, along with our subsidiaries, are party to various legal proceedings arising in the ordinary course of business. We accrue for losses that are both probable and reasonably estimable. Legal fees and expenses associated with the defense of all of our litigation are expensed as such fees and expensed are incurred. As of December 31, 2010 and 2009, we had no accrual relating to probable losses for our outstanding litigation.

We continue to monitor our litigation exposure, and will review the adequacy of our legal reserves on a quarterly basis.

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.

Guarantee

ColorTyme Guarantees. Our subsidiary, ColorTyme Finance, Inc., is a party to an agreement with Citibank, N.A., who provides up to \$25.0 million in aggregate financing to qualifying franchisees of ColorTyme. Under the Citibank agreement, upon an event of default by the franchisee under agreements governing this financing and upon the occurrence of certain other events, Citibank can assign the loans and the collateral securing such loans to ColorTyme Finance, with ColorTyme Finance paying or causing to be paid the outstanding debt to Citibank and then succeeding to the rights of Citibank under the debt agreements, including the right to foreclose on the collateral. Rent-A-Center and ColorTyme Finance guarantee the obligations of the franchise borrowers under the Citibank facility. An additional \$20.0 million of financing is provided by Texas Capital Bank under an agreement similar to the Citibank financing, which is guaranteed by Rent-A-Center East, Inc., a subsidiary of Rent-A-Center. The maximum guarantee obligations under these agreements, excluding the effects of any amounts that could be recovered under collateralization provisions, is \$45.0 million, of which \$17.9 million was outstanding as of December 31, 2010.

Note K — Stock-Based Compensation

We maintain long-term incentive plans for the benefit of certain employees, consultants and directors. Our plans consist of the Rent-A-Center, Inc. Amended and Restated Long-Term Incentive Plan (the "Prior Plan"), the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (the "2006 Plan"), and the Rent-A-Center, Inc. 2006 Equity Incentive Plan (the "Equity Incentive Plan"), which are collectively known as the "Plans."

The 2006 Plan authorizes the issuance of 7,000,000 shares of Rent-A-Center's common stock that may be issued pursuant to awards granted under the 2006 Plan, of which no more than 3,500,000 shares may be issued in the form of restricted stock, deferred stock or similar forms of stock awards which have value without regard to future appreciation in value of or dividends declared on the underlying shares of common stock. In applying these limitations, the following shares will be deemed not to have been issued: (1) shares covered by the unexercised portion of an option that terminates, expires, or is canceled or settled in cash, and (2) shares that are forfeited or

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

subject to awards that are forfeited, canceled, terminated or settled in cash. At December 31, 2010 and 2009, there were 1,796,575 and 1,838,155 shares, respectively, allocated to equity awards outstanding in the 2006 Plan.

We acquired the Equity Incentive Plan (formerly known as the Rent-Way, Inc. 2006 Equity Incentive Plan) in conjunction with our acquisition of Rent-Way in 2006. There were 2,468,461 shares of our common stock reserved for issuance under the Equity Incentive Plan. There were 726,539 and 558,437 shares allocated to equity awards outstanding in the Equity Incentive Plan at December 31, 2010 and 2009, respectively.

Under the Prior Plan, 14,562,865 shares of Rent-A-Center's common stock were reserved for issuance under stock options, stock appreciation rights or restricted stock grants. Options granted to our employees under the Prior Plan generally become exercisable over a period of one to four years from the date of grant and may be exercised up to a maximum of ten years from the date of grant. Options granted to directors were immediately exercisable. There were no grants of stock appreciation rights and all equity awards were granted with fixed prices. At December 31, 2010 and 2009, there were 1,607,525 and 2,525,027 shares, respectively, allocated to equity awards outstanding under the Prior Plan. The Prior Plan was terminated on May 19, 2006, upon the approval by our stockholders of the 2006 Plan.

Information with respect to stock option activity related to the Plans follows. The information for the Plans is combined because the characteristics of the awards are similar.

	<u>Equity Awards Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Aggregate Intrinsic Value</u> (In thousands)
Balance outstanding at January 1, 2010	4,921,619	\$20.43	5.44 years	\$ 8,584
Granted	796,345	20.22		
Exercised	(1,095,393)	17.52		\$ 9,106
Forfeited	<u>(491,932)</u>	<u>24.02</u>		
Balance outstanding at December 31, 2010	<u>4,130,639</u>	<u>\$20.78</u>	5.53 years	\$42,676
Exercisable at December 31, 2010	2,606,049	\$21.30	3.85 years	\$28,259

The intrinsic value of options exercised during the years ended December 31, 2009 and 2008 was \$1.0 million and \$1.7 million, respectively.

The fair value of unvested options that we expect to result in compensation expense was approximately \$4.3 million with a weighted average number of years to vesting of 2.41 years at December 31, 2010. The total number of unvested options was 1,524,590 and 1,417,207, with intrinsic values of \$14.4 million and \$946,000 at December 31, 2010 and 2009, respectively. There were 423,497 and 194,128 restricted stock units outstanding as of December 31, 2010 and 2009, respectively.

The weighted average fair value of unvested options at December 31, 2010 and 2009 was \$3.76 and \$3.21, respectively. The weighted average fair value of options forfeited during the year ended December 31, 2010 was \$7.35.

The total number of options vested during the year ended December 31, 2010 was 527,141, with a weighted average fair value of \$5.27. The total fair value of options vested during the years ended December 31, 2010, 2009 and 2008, was \$2.6 million, \$3.0 million and \$4.3 million, respectively.

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During the twelve months ended December 31, 2010, the weighted average fair values of the options granted under the Plans were calculated using the binomial method with the following assumptions:

Employee options:

Risk free interest rate (0.26% to 2.16%)	Weighted average 1.01%
Expected dividend yield	0.80%
Expected life	5.48 years
Expected volatility (34.95% to 56.30%)	Weighted average 47.87%
Forfeiture rate (5.00% to 15.43%)	Weighted average 10.18%
Employee stock options granted	796,345
Weighted average grant date fair value	\$6.00

During the twelve months ended December 31, 2009, the weighted average fair values of the options granted under the Plans were calculated using the binomial method with the following assumptions:

Employee options:

Risk free interest rate (0.37% to 2.04%)	Weighted average 1.10%
Expected dividend yield	—
Expected life	5.34 years
Expected volatility (45.30% to 66.50%)	Weighted average 55.08%
Forfeiture rate (3.64% to 24.80%)	Weighted average 11.23%
Employee stock options granted	678,370
Weighted average grant date fair value	\$5.72

During the twelve months ended December 31, 2008, the weighted average fair values of the options granted under the Plans were calculated using the binomial method with the following assumptions:

Employee options:

Risk free interest rate (1.62% to 3.17%)	Weighted average 2.43%
Expected dividend yield	—
Expected life	4.20 years
Expected volatility (33.85% to 53.58%)	Weighted average 42.08%
Forfeiture rate (4.20% to 19.60%)	Weighted average 10.08%
Employee stock options granted	732,995
Weighted average grant date fair value	\$4.66

Non-employee director options:

Risk free interest rate	3.54%
Expected dividend yield	—
Expected life	6.90 years
Expected volatility	41.26%
Forfeiture rate	0.00%
Non-employee director stock options granted	24,000
Weighted average grant date fair value	\$7.02

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Tax benefits from stock option exercises of \$3.0 million, \$270,000 and \$560,000, respectively, for the twelve months ended December 31, 2010, 2009 and 2008 were reflected as an outflow from operating activities and an inflow from financing activities in the Consolidated Statement of Cash Flows.

Note L — Deferred Compensation Plan

The Rent-A-Center, Inc. Deferred Compensation Plan (the "Deferred Compensation Plan") is an unfunded, nonqualified deferred compensation plan for a select group of our key management personnel and highly compensated employees. The Deferred Compensation Plan first became available to eligible employees in July 2007, with deferral elections taking effect as of August 3, 2007.

The Deferred Compensation Plan allows participants to defer up to 50% of their base compensation and up to 100% of any bonus compensation. Participants may invest the amounts deferred in measurement funds that are the same funds offered as the investment options in the Rent-A-Center, Inc. 401(k) Retirement Savings Plan. We may make discretionary contributions to the Deferred Compensation Plan, which are subject to a five-year graded vesting schedule based on the participant's years of service with us. We are obligated to pay the deferred compensation amounts in the future in accordance with the terms of the Deferred Compensation Plan. Assets and associated liabilities of the Deferred Compensation Plan are included in prepaid and other assets and accrued liabilities in our consolidated balance sheets. The deferred compensation plan liability was approximately \$2.0 million and \$1.3 million as of December 31, 2010 and 2009, respectively. No discretionary contributions were made for the years ended December 31, 2010, 2009 and 2008.

Note M — Employee Benefit Plan

We sponsor a defined contribution pension plan under Section 401(k) of the Internal Revenue Code for all employees who have completed at least three months of service. Employees may elect to contribute up to 50% of their eligible compensation on a pre-tax basis, subject to limitations. We may make discretionary matching contributions to the 401(k) plan. During 2010, 2009 and 2008, we made matching cash contributions of \$5.8 million, \$5.6 million and \$5.3 million, respectively, which represents 50% of the employees' contributions to the 401(k) plan up to an amount not to exceed 4% of each employee's respective compensation. Employees are permitted to elect to purchase our common stock as part of their 401(k) plan. As of December 31, 2010, 2009 and 2008, 12.0%, 9.0%, and 12.0%, respectively, of the total plan assets consisted of our common stock.

Note N — Fair Value

At December 31, 2010, our financial instruments include cash and cash equivalents, receivables, payables, senior debt and senior notes. The carrying amount of cash and cash equivalents, receivables and payables approximates fair value at December 31, 2010 and 2009, because of the short maturities of these instruments. Our senior debt is variable rate debt that re-prices frequently and entails no significant change in credit risk and, as a result, fair value approximates carrying value. The fair value of our senior notes is based on observable market data. At December 31, 2010, the fair value of our senior notes was \$299.8 million, which was approximately \$200,000 below their carrying value of \$300.0 million.

We use a three-tier fair value hierarchy, which classifies the inputs used in measuring fair values, in determining the fair value of our non-financial assets and non-financial liabilities, which consist primarily of goodwill. These tiers include: Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We recorded charges for goodwill related to stores sold or closed of \$4.3 million for the twelve months ended December 31, 2010. These charges were determined using both a revenue method and trading multiples, which are Level 3 inputs based on our historical experience with store acquisitions and divestitures.

Note O — Impairment Charge

Our impairment charge consists of the following (in thousands):

	<u>Year Ended December 31, 2010</u>
Fixed asset disposal	\$11,753
Goodwill impairment	1,767
Loan write-down	2,059
Other	<u>3,360</u>
Total	<u>\$18,939</u>

On October 25, 2010, we announced that, in connection with an analysis of our available growth initiatives, we were exploring strategic alternatives with respect to our financial services business, including the possible sale or divestiture of such business. As of February 18, 2011, we had ceased making new loans, sold a majority of our customer accounts, and had less than \$5.0 million in remaining loan balance.

During the fourth quarter of 2010, we recorded a pre-tax impairment charge of approximately \$18.9 million related to the discontinuation of our financial services business. The charge with respect to discontinuing the operations of all 331 store locations relate primarily to fixed asset disposals, goodwill impairment, loan write-downs and other miscellaneous items. The impairment charge was based on the amount that the carrying value exceeded the estimated fair value of the assets. The fair value was based on our historical experience with store acquisitions and divestitures, which are Level 3 inputs.

Note P — Stock Repurchase Plan

Our Board of Directors has authorized a common stock repurchase program, permitting us to purchase, from time to time, in the open market and privately negotiated transactions, up to an aggregate of \$800.0 million of Rent-A-Center common stock. We have repurchased a total of 23,470,345 shares and 19,884,850 shares of Rent-A-Center common stock for an aggregate purchase price of \$551.2 million and \$466.6 million as of December 31, 2010 and 2009, respectively, under this common stock repurchase program. Through the twelve months ended December 31, 2010, we have repurchased a total of 3,585,495 shares for approximately \$84.6 million in cash. We repurchased 1,403,993 shares for \$38.7 million in the fourth quarter of 2010.

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note Q — Earnings Per Common Share

Summarized basic and diluted earnings per common share were calculated as follows:

	<u>Net Earnings</u>	<u>Weighted Average Shares</u>	<u>Per Share</u>
	(In thousands, except per share data)		
Year ended December 31, 2010			
Basic earnings per common share	\$171,642	65,104	\$2.64
Effect of dilutive stock options	<u>—</u>	<u>799</u>	
Diluted earnings per common share	<u>\$171,642</u>	<u>65,903</u>	\$2.60
Year ended December 31, 2009			
Basic earnings per common share	167,855	65,986	\$2.54
Effect of dilutive stock options	<u>—</u>	<u>581</u>	
Diluted earnings per common share	<u>167,855</u>	<u>66,567</u>	\$2.52
Year ended December 31, 2008			
Basic earnings per common share	139,624	66,606	\$2.10
Effect of dilutive stock options	<u>—</u>	<u>585</u>	
Diluted earnings per common share	<u>139,624</u>	<u>67,191</u>	\$2.08

For 2010, 2009, and 2008, the number of stock options that were outstanding but not included in the computation of diluted earnings per common share because their exercise price was greater than the average market price of the common stock and, therefore anti-dilutive, was 1,839,225, 2,964,778, and 3,100,825, respectively.

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note R — Unaudited Quarterly Data

Summarized quarterly financial data for 2010, 2009 and 2008 is as follows:

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
	(In thousands, except per share data)			
Year ended December 31, 2010				
Revenues	\$718,419	\$671,543	\$664,580	\$677,090
Gross profit	513,000	497,665	490,013	494,994
Operating profit	88,703	82,831	69,393	62,842
Net earnings	51,461	47,830	40,497	31,854
Basic earnings per common share	\$ 0.78	\$ 0.73	\$ 0.62	\$ 0.50
Diluted earnings per common share	\$ 0.77	\$ 0.72	\$ 0.62	\$ 0.49
Cash dividends per common share	\$ —	\$ —	\$ 0.06	\$ 0.06
Year ended December 31, 2009				
Revenues	\$728,183	\$679,609	\$671,251	\$672,913
Gross profit	515,212	494,422	487,239	491,125
Operating profit	82,092	75,283	64,367	74,582
Net earnings	45,376	41,945	36,840	43,694
Basic earnings per common share	\$ 0.69	\$ 0.64	\$ 0.56	\$ 0.66
Diluted earnings per common share	\$ 0.68	\$ 0.63	\$ 0.55	\$ 0.66
Year ended December 31, 2008				
Revenues	\$756,636	\$719,031	\$708,755	\$699,750
Gross profit	533,733	517,329	510,022	507,268
Operating profit	77,540	74,434	58,549	63,865
Net earnings	36,358	37,741	29,379	36,146
Basic earnings per common share	\$ 0.55	\$ 0.57	\$ 0.44	\$ 0.54
Diluted earnings per common share	\$ 0.54	\$ 0.56	\$ 0.44	\$ 0.54

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.*

None.

Item 9A. *Controls and Procedures.*

Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a—15(e) and 15d—15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this annual report. Based on this evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that, as of December 31, 2010, our disclosure controls and procedures were effective as defined in Rules 13a—15(e) and 15d—15(e) under the Securities Exchange Act of 1934.

Management's Annual Report on Internal Control over Financial Reporting

Please refer to Management's Annual Report on Internal Control over Financial Reporting on page 40 of this report.

Changes in Internal Control over Financial Reporting

For the quarter ended December 31, 2010, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. *Other Information.*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance.*(*)

Item 11. *Executive Compensation.*(*)

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.*(*)

Item 13. *Certain Relationships and Related Transactions, and Director Independence.*(*)

Item 14. *Principal Accountant Fees and Services.*(*)

* The information required by Items 10, 11, 12, 13 and 14 is or will be set forth in the definitive proxy statement relating to the 2011 Annual Meeting of Stockholders of Rent-A-Center, Inc., which is to be filed with the SEC pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. This definitive proxy statement relates to a meeting of stockholders involving the election of directors and the portions thereof required to be set forth in this Form 10-K by Items 10, 11, 12, 13 and 14 are incorporated herein by reference pursuant to General Instruction G(3) to Form 10-K.

PART IV

Item 15. *Exhibits and Financial Statement Schedules.*

Financial Statement Schedules

The financial statements included in this report are listed in the Index to Financial Statements on page 37 of this report. Schedules for which provision is made in the applicable accounting regulations of the SEC are either not required under the related instructions or inapplicable.

Exhibits

The exhibits required to be furnished pursuant to Item 15 are listed in the Exhibit Index filed herewith, which Exhibit Index is incorporated herein by reference.

INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
3.1	Certificate of Incorporation of Rent-A-Center, Inc., as amended (Incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K dated as of December 31, 2002.)
3.2	Certificate of Amendment to the Certificate of Incorporation of Rent-A-Center, Inc., dated May 19, 2004 (Incorporated herein by reference to Exhibit 3.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)
3.3	Amended and Restated Bylaws of Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K dated as of September 23, 2010.)
4.1	Form of Certificate evidencing Common Stock (Incorporated herein by reference to Exhibit 4.1 to the registrant's Registration Statement on Form S-4/A filed on January 13, 1999.)
4.2	Indenture, dated as of November 2, 2010, by and among Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York Mellon Trust Company, N.A., as Trustee (Incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K dated as of November 2, 2010.)
4.3	Registration Rights Agreement relating to the 6.625% Senior Notes due 2020, dated as of November 2, 2010, among Rent-A-Center, Inc., the subsidiary guarantors party thereto and J.P. Morgan Securities LLC, as representative for the initial purchasers named therein (Incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K dated as of November 2, 2010.)
4.4*	Supplemental Indenture, dated as of December 21, 2010, among Diamondback Merger Sub, Inc., Rent-A-Center, Inc., and The Bank of New York Mellon Trust Company, N.A., as Trustee
4.5*	Supplemental Indenture, dated as of December 21, 2010, among The Rental Store, Inc., Rent-A-Center, Inc., and The Bank of New York Mellon Trust Company, N.A., as Trustee
10.1†	Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.)
10.2	Amended and Restated Guarantee and Collateral Agreement, dated as of May 28, 2003, as amended and restated as of July 14, 2004, made by Rent-A-Center, Inc. and certain of its Subsidiaries in favor of JPMorgan Chase Bank, as Administrative Agent (Incorporated herein by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K dated July 15, 2004.)
10.3	Franchisee Financing Agreement, dated April 30, 2002, but effective as of June 28, 2002, by and between Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 10.14 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.)
10.4	Supplemental Letter Agreement to Franchisee Financing Agreement, dated May 26, 2003, by and between Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 10.23 to the registrant's Registration Statement on Form S-4 filed July 11, 2003.)
10.5	First Amendment to Franchisee Financing Agreement, dated August 30, 2005, by and among Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center East, Inc. (Incorporated herein by reference to Exhibit 10.7 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.)
10.6	Franchise Financing Agreement, dated as of August 2, 2010, between ColorTyme, Inc. and Citibank, N.A. (Incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated as of August 2, 2010.)
10.7	Unconditional Guaranty of Rent-A-Center, Inc., dated as of August 2, 2010, executed by Rent-A-Center, Inc. in favor of Citibank, N.A. (Incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated as of August 2, 2010.)
10.8	Unconditional Guaranty of Rent-A-Center, Inc., dated as of August 2, 2010, executed by ColorTyme Finance, Inc. in favor of Citibank, N.A. (Incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated as of August 2, 2010.)

<u>Exhibit No.</u>	<u>Description</u>
10.9†	Form of Stock Option Agreement issuable to Directors pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.20 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2004.)
10.10†	Form of Stock Option Agreement issuable to management pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.21 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2004.)
10.11†	Summary of Director Compensation (Incorporated herein by reference to Exhibit 10.13 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2008.)
10.12†	Form of Stock Compensation Agreement issuable to management pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.15 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.)
10.13†	Form of Long-Term Incentive Cash Award issuable to management pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.16 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.)
10.14†	Form of Loyalty and Confidentiality Agreement entered into with management (Incorporated herein by reference to Exhibit 10.17 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.)
10.15†	Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.17 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.)
10.16†	Form of Stock Option Agreement issuable to management pursuant to the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.18 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.)
10.17†	Form of Stock Compensation Agreement issuable to management pursuant to the Rent-A-Center, Inc. 2006 Equity Incentive Plan (Incorporated herein by reference to Exhibit 10.19 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
10.18†	Form of Long-Term Incentive Cash Award issuable to management pursuant to the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.20 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
10.19†	Rent-A-Center, Inc. 2006 Equity Incentive Plan and Amendment (Incorporated herein by reference to Exhibit 4.5 to the registrant's Registration Statement on Form S-8 filed with the SEC on January 4, 2007.)
10.20†	Form of Stock Option Agreement issuable to management pursuant to the Rent-A-Center, Inc. 2006 Equity Incentive Plan (Incorporated herein by reference to Exhibit 10.22 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
10.21†	Form of Stock Compensation Agreement issuable to management pursuant to the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.23 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
10.22†	Form of Stock Option Agreement issuable to Directors pursuant to the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.24 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
10.23†*	Form of Deferred Stock Unit Award Agreement issuable to Directors pursuant to the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan
10.24†	Form of Executive Transition Agreement entered into with management (Incorporated herein by reference to Exhibit 10.21 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.)
10.25†	Employment Agreement, dated October 2, 2006, between Rent-A-Center, Inc. and Mark E. Speese (Incorporated herein by reference to Exhibit 10.22 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.)

<u>Exhibit No.</u>	<u>Description</u>
10.26†	Non-Qualified Stock Option Agreement, dated October 2, 2006, between Rent-A-Center, Inc. and Mark E. Speese (Incorporated herein by reference to Exhibit 10.23 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.)
10.27†	Rent-A-Center, Inc. Non-Qualified Deferred Compensation Plan (Incorporated herein by reference to Exhibit 10.28 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.)
10.28†	Rent-A-Center, Inc. 401-K Plan (Incorporated herein by reference to Exhibit 10.30 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2008.)
10.29	Third Amended and Restated Credit Agreement, dated as of November 15, 2006, among Rent-A-Center, Inc., the several banks and other financial institutions or entities from time to time parties thereto, Union Bank of California, N.A., as documentation agent, Lehman Commercial Paper Inc., as syndication agent, and JPMorgan Chase Bank, N.A., as administrative agent, as amended by that certain First Amendment to Third Amended and Restated Credit Agreement, dated as of December 2, 2009 (Incorporated herein by reference to Exhibit 10.31 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.)
10.30	Rent-A-Center East, Inc. Retirement Savings Plan for Puerto Rico Employees (Incorporated herein by reference to Exhibit 99.1 to the registrant's Registration Statement on Form S-8 filed January 28, 2011.)
21.1*	Subsidiaries of Rent-A-Center, Inc.
23.1*	Consent of Grant Thornton LLP
31.1*	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by Mark E. Speese
31.2*	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by Robert D. Davis
32.1*	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Mark E. Speese
32.2*	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Robert D. Davis
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

† Management contract or compensatory plan or arrangement.

* Filed herewith.

** The XBRL-related information in Exhibit No. 101 to this Annual Report on Form 10-K is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

BOARD OF DIRECTORS

Mark E. Speese
Chairman of the Board and Chief Executive Officer
Rent-A-Center, Inc.

Mitchell E. Fadel
President and Chief Operating Officer
Rent-A-Center, Inc.

Michael J. Gade
Founding Partner
Challance Group, L.L.P.

Jeffery M. Jackson
Executive Vice President - Corporate Business Development
Sabre Holdings, Inc.

Kerney Laday
President
The Laday Company

J.V. Lentell
Vice Chairman
Intrust Bank, N.A.

Leonard H. Roberts
Retired Chairman of the Board and Chief Executive Officer
RadioShack Corporation

Paula Stern, Ph.D.
Chairwoman
Stern Group, Inc.

CORPORATE OFFICERS

Robert F. Bloom	Chief Executive Officer and President of ColorTyme, Inc.
David G. Ewbank	Division Vice President
Michael P. Kilbane	Division Vice President
Gregory L. Matheny	Division Vice President
Fred G. Mattox	Division Vice President
Stephen B. McKinley	Division Vice President
Michael R. McNamara	Division Vice President
Catherine M. Skula	Division Vice President
Charles J. White	Division Vice President
James E. York	Division Vice President
Robert D. Brockman	Senior Vice President - Human Resources
Ann L. Davids	Senior Vice President - Chief Marketing Officer
Dwight D. Dumler	Senior Vice President - Public Affairs
Tony F. Fuller	Senior Vice President - Information Technology and Chief Information Officer
Joel M. Mussat	Senior Vice President - Strategic Planning and Development
Bobby R. Pope	Senior Vice President - Operational Services
Joe T. Arnette	Vice President - Sales
John F. Butler	Vice President - Inventory Management
David E. Carpenter	Vice President - Investor Relations
Ricardo Cordon	Vice President - Tax
Rebecca O. Crawford	Vice President - Field Human Resources
Xavier A. Dominicus	Vice President - Public Affairs
David M. Glasgow	Vice President - Risk Management
Daniel G. Glasky	Vice President - Merchandise Purchasing
John D. Gray	Vice President - Training
Fred E. Herman	Vice President - Internal Audit
Alan E. Hubbard	Vice President - Compensation and Benefits
Robert E. McCartney	Vice President - Fleet
Tim P. Pitt	Vice President - Marketing
Robert W. Rapp	Vice President - Information Technology and Chief Technology Officer
Maureen B. Short	Vice President - Finance, Analytics and Reporting
Bobby P. Templet	Vice President - Loss Prevention
Andrew M. Trusevich	Vice President - Assistant General Counsel
Ned W. Villemarette	Vice President - Finance and Controller
Agustin Viola-Prioli	Vice President - New Business Development
Michael S. Wilding	Vice President - Spend Management and Chief Procurement Officer
Dawn M. Wolverton	Vice President - Associate General Counsel and Assistant Secretary

EXECUTIVE OFFICERS

Mark E. Speese
Chairman of the Board and Chief Executive Officer

Mitchell E. Fadel
President and Chief Operating Officer

Robert D. Davis
Executive Vice President - Finance,
Chief Financial Officer and Treasurer

Theodore V. DeMarino
Executive Vice President - Operations

Christopher A. Korst
Executive Vice President - Operations

Ronald D. DeMoss
Executive Vice President - General Counsel and Secretary

David E. West
Executive Vice President - Operational Services

CORPORATE AND STOCKHOLDER INFORMATION

Corporate Offices
5501 Headquarters Drive
Plano, TX 75024
www.rentacenter.com

Independent Auditors
Grant Thornton LLP
1717 Main Street
Suite 1500
Dallas, TX 75201

Stockholders may obtain copies of news releases, U.S. Securities and Exchange Commission filings, including Forms 10-K, 10-Q, and 8-K, and other company information by accessing our Web site at www.rentacenter.com

Stockholders may also contact:
Investor Relations
Rent-A-Center, Inc.
5501 Headquarters Drive
Plano, TX 75024
Phone: (972) 801-1100
Fax: (866) 260-1424
Email: ir@rentacenter.com

Annual Meeting
May 12, 2011, at 9:30 a.m.
Corporate Offices

Transfer Agent and Registrar
BNY Mellon Shareowner Services
480 Washington Boulevard
Jersey City, NJ 07310-1900
(877) 264-3797
www.bnymellon.com

Stock Listing
NASDAQ Global Select Market
Ticker Symbol: RCII



**ERNIE TALLEY ACQUIRES
A CONTROLLING INTEREST IN
VISTA RENT TO OWN**



**BREAKS THE "100 STORE" MARK
WITH THE ACQUISITION OF 84
STORES FROM DEF INVESTMENTS**

**CHANGES NAME TO
RENTERS CHOICE**



**BREAKS THE "2,000 STORE"
MARK WITH THE ACQUISITION OF
1,409 RENT-A-CENTER STORES
FROM THORN AMERICAS**

**MITCH FADEL LEAVES
COLORTYME (WHERE HE
WAS CEO) TO JOIN
RENT-A-CENTER
AS PRESIDENT**



**ACQUIRES 4TH AND 5TH LARGEST
RENT-TO-OWN OPERATORS, 124 STORES
FROM RAINBOW RENTALS, INC., AND 90
STORES FROM RENT RITE, INC.**

**LOGO EVOLVES TO
ROUND RAC LOGO**



**OPENED FIRST
HOME CHOICE
STORE IN
ROCKFORD, IL**

**RAC ACCEPTANCE GROWS TO 384 LOCATIONS,
INCLUDING AN ACQUISITION OF 158 LOCATIONS
FROM THE RENTAL STORE**

**CELEBRATES 25 YEARS
OF RTO SERVICE**



1986

**MARK E. SPEESE ALONG
WITH TWO PARTNERS
STARTS VISTA RENT TO
OWN (OPERATES STORES
PRIMARILY IN PUERTO
RICO AND NEW JERSEY)**



1989

HISTORY OF GROWTH

**FROM HUMBLE BEGINNINGS IN
NEW JERSEY, TO THOUSANDS OF
LOCATIONS INTERNATIONALLY,
RENT-A-CENTER HAS PROVEN TO BE A
LEADER IN THE RENT-TO-OWN INDUSTRY.**

1993

**RENTERS CHOICE COMPLETES
PUBLIC OFFERING OF COMMON
STOCK AT \$1.33 PER SHARE
(SPLIT ADJUSTED)**

1995

**ACQUIRES COLORTYME, INC.,
A FRANCHISOR OF
RENT-TO-OWN STORES**

1996



1998

RAC Rent-A-Center®

CHANGES NAME TO RENT-A-CENTER

1999

2000

**MARK E. SPEESE APPOINTED
CHAIRMAN OF THE BOARD AND CEO**

2001

2003

**ACQUIRED 295 STORES
FROM RENT-WAY, INC.**

2004

**ENTERS CANADA VIA A
5 STORE ACQUISITION**



2006

**BREAKS THE "3,000 STORE" MARK
WITH THE ACQUISITION OF 782 STORES
FROM RENT-WAY, INC., THE 3RD
LARGEST RENT-TO-OWN OPERATOR**

2008



FIRST STORE OPENS IN REYNOSA, MEXICO

2010

**PRO FOOTBALL HALL-OF-FAMER AND
SPORTS ANALYST TROY AIKMAN AND
WRESTLING LEGEND HULK HOGAN
SIGN ON AS NATIONAL ADVERTISING
SPOKESPERSONS**

2011

**HELD FIRST EVER INVESTOR DAY
TO COMMUNICATE OUR ROAD MAP
FOR GROWTH**



RENT-A-CENTER, INC.
5501 HEADQUARTERS DRIVE
PLANO, TX 75024
WWW.RENTACENTER.COM

